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MODERN MONEY

MODERN MONEY

A TREATISE
ON THE REFORM OF THE THEORY AND
PRACTICE OF POLITICAL ECONOMY

By
LORD MELCHETT

LONDON
MARTIN SECKER

1932

To G

The first man knew her not perfectly ; and in the like manner the last man hath not traced her out.

For her thoughts are filled from the sea, and her counsels from the great deep.

Ecclesiasticus

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INTRODUCTION

ENGLAND is a bad country for men of ideas. It is said that when any new notion is put forward the public first declare it is absurd, then that it is contrary to religion, and finally that everyone knew it before. To some extent this is the genius of the people. They do not believe in a rapidly and easily achieved millennium. "What is, has got to be" is rather their philosophy. They prefer to wait for a crisis rather than to anticipate one, to trust men of character and without preconceived ideas rather than men with imagination and plans. Striking examples of this attribute are to be seen in the facts that Free Trade was introduced by a Protectionist Prime Minister and Protection under a Free Trade Prime Minister—with most of the ardent protectionists who had fought long and unswervingly for that cause left out of office. It is also in the English tradition that Protection was introduced, with Preferences to the Colonies and Dominions, not by Mr. Joseph Chamberlain, but by his son.

It is, therefore, with considerable diffidence that I venture again upon the uncharted and stormy seas of financial controversy, and attempt to state again new theories and concepts for the government of our economic life.

People in England rightly are not much concerned with theories. They don't hold with them. It is far better that it should be so. Theories rarely

work out in practice, and there is no more certain road to disaster than a strict adherence to a preconceived idea. Russia and Italy have completely revised their economic and political existence upon logical and theoretical grounds. I believe there is a grain of truth in the ideas that have inspired them to these efforts. If so, I feel sure that England will adapt and adopt what is necessary ; and having witnessed the mistakes of other nations, will produce something of its own which will constitute a glorious page in its own history and serve again as an object-lesson for the world.

It would be very natural if this were to be the case. The world was chaotic before the war. A period of development in a particular form was becoming unstable. The war produced great advances in industry, science, education, and in the ideas of a mass of people whose lives had not for centuries been so much, and so closely, affected by world events. The scientific outlook, the notion of organization, the idea of co-operation, of the sin of idleness, all became established points in the national psychology in a few years. The teachings of Marx—long out of date elsewhere—produced economic controversy in the political field of a most unusually direct character. The disturbance of foreign exchanges in 1920-24, then the widening circle of Stock Exchange operations from 1925-29, have made people to whom such matters were previously obscure mysteries think about monetary and economic affairs.

Some time in the next twenty-five or fifty years there will be big changes based on common sense and a clearer understanding. Meanwhile there is a

lot of jungle to be cleared—jungle of the early training of the departing generation, of initial ideas, Stone Age in their comparative utility, which cover the field of so-called economics and finance. There are uncrossed deserts and uncharted seas of currency. It is among these that I propose to explore. They constitute dreary topics, and I am afraid by their nature always will. But they can be enlivened by the knowledge that to-day they are the fabric upon which every civilized individual rests. If that fabric is torn or shaken, every man, woman and child feels it and suffers according to their degree.

Meanwhile a more pleasant prospect fills the mind's eye. In spite of booms and slumps, in spite of prosperity and disaster, the world, since the Bronze Age, has made continued progress. There have been interruptions due to the conquests of savage races and the ravages of religion, but on the whole the conquests have been those of civilization. There are some who believe the whole of this effort to be accidental and of no significance. I am not of their opinion. But whatever the purpose of life, it is particularly foolish for its progress and advancement to be constantly delayed by what we arrange to call money, or to write down as money in books, to please or deceive ourselves. Real wealth consists, as I said in another book, of the power which man possesses over the natural forces and substances by which he is surrounded. He may choose to represent their power in one way or another, but these methods should be his servants. To-day they are our masters. There is no economist, no banker, no financier, who can give clear answers to the ques-

tions put by a distressed and tormented world. The whole of this subject, upon which our very existence depends, is full of doubt and controversy and always has been.

I believe that in time a clearer appreciation of the facts of the world will lead to complete understanding of the problem and to the adoption of simple methods to handle what should be a simple proposition. If I seem to the reader to have quoted the testimony of other writers overmuch, I will, by way of apology, use an image drawn from Dr. Johnson, who had it of Lord Bacon :

“ Testimony is like an arrow shot from a long bow ; the force of it depends on the strength of the hand that draws it. Argument is like an arrow from a cross-bow, which has equal force if shot by a child. . . . ”

MODERN MONEY

CHAPTER I

ANALYSIS

IN the summer of 1931 I published a short treatise entitled *Why the Crisis ?*, showing how foolish it is to permit monetary crises to occur, analysing the causes and giving a simple account of the particular crisis from which we were then suffering. Since that time much has occurred. England has gone off the gold standard, an institution she should never have readopted, and many other financial events of the first importance have taken place. Also a great deal has been written. Mr. R. G. Hawtrey, Dr. Robert Eisler, Lord d'Abernon and others have all written books giving most admirable histories of recent events and proposing more suitable methods of managing our affairs. Any one of their systems would, I think, be preferable to the present state of affairs, but none of them goes quite far enough in the direction of sane rationalization of monetary policy and none of them goes back to the fundamental question of whence these troubles arise.

I propose to devote this first chapter to an analysis of the monetary and industrial problems, and to devote the later chapters to certain solutions which seem to me to be based on common sense,

though they are far reaching and may appear to be almost revolutionary in character.

The
instability of
currency.

All current authorities agree that inflation creates a boom and deflation a slump. Unfortunately, continued inflation leads to instability and fear, and through the well-known stages to a crash and a slump. Deflation produces precisely the same result without anyone having had the fun of a boom. The problem, which is centuries old, is when to deflate an inflation without producing a crash. No one has ever solved it. Mr. Feavear-year's account of the "History of the Pound Sterling" describes crises in 1763, 1772, 1783, 1793, 1809, 1811, 1815, 1821, 1825, 1836, 1839, 1847, 1857, 1866, 1890, 1914, 1921, 1929. So far as I can see, this is all due to the fact that no real change has been made in our idea of money since the industrial system commenced. The period from 1866 to 1914 inclusive had only three crises in forty-eight years, and this comparative stability coincided with the greatest advance in conditions of human life that mankind has ever experienced. It was, however, the merest accident that new gold production during this period sustained a sufficient currency to carry the enormous increase of production. This is the history of the pound sterling, the most stable financial institution in the world. I have never had the courage to read the histories of the other world currencies; they must be frightful.

Trade and
currency
prior to the
industrial
period.

Prior to the industrial system the world moved slowly. The movement and exchange of goods and services was comparatively local. Broadly speaking, human societies were self-supporting.

About 1775 Dr. Johnson said, in reply to a man who complained that high taxation would increase the cost of labour in England, and that we should lose our foreign trade from Continental competition : " Never fear, Sir, our commerce is in a very good state ; and suppose we had no commerce at all, we could live very well on the produce of our own country." With the opening up of the New World and the commencement of the industrial era all this changed. Communities grew up that were not self-supporting, but dependent upon each other. They exchanged commodities and services.

Men lived in Lancashire whose only hope of subsistence was to manufacture cotton goods and sell them elsewhere. A population grew up in America whose civilized existence depended upon being able to sell cotton to Lancashire. Alongside of all this grew up a monetary system, based on the idea that the currency in circulation should be made of material of high intrinsic value, and which, developed from purely local needs, was asked to render services for which it was in no way fitted.

It was quite easy, when dealing locally and with small quantities, to make gold and silver coinage, and notes and bills of private bankers who were well-known and responsible personages (whose wealth expressed in horses and cows and land and buildings you could see every day) act as a useful and convenient method of exchange ; and as long as the bulk of the world's trade was on that basis, and bullion really represented a large proportion of the world-stored capital, the system worked quite

well. But as the world's physical wealth in other ways increased, so bullion lost its relative importance. The system became quite inadequate for the purposes for which it was used because wealth ceased, in the main, to be visible, tangible and personal, becoming rather a matter of record—a claim to a share in something.

The complexities of international trade and banking, aggravated by the inherent political instability of the world, are such that admittedly no one can control the system as a whole. Yet it is essential that something should be done to prevent the recurrence of these crises if civilization is to survive. It would seem wise, therefore, if as much of the world's monetary circulation as possible were insulated from unstable and uncontrollable influences, and in a later chapter I try to show how that can be effected.

The fact that the long-term economic trend is upwards should be the basis of the financial system.

The one fundamental discovery that has affected the world's economic outlook and provided the basis for an entirely new conception of money is the fact that it has been clearly established that the wealth of the world increases regularly year by year. This increase is due not only to the increase in the population and the development of new countries, but also to the inventiveness of man and the discovery of new sources of power and materials. To quote a passage which puts this as I see it :

“The only absolute facts are scientific and industrial. If someone finds out an easier way of putting glue into glue-pots, or making the pots out of something lighter or more convenient, the world is that much better off as long as it wants glue. The development of magnetic survey enabled mankind

to find great areas of mineral deposits that were hidden before, while the magical process of oil flotation enabled men to separate minerals from rock with infinitely less trouble and expense than was previously the case.

“The discovery of the fact that it was possible by consuming coal to fix the nitrogen in the air relieved mankind from the unenviable spectre of eventual starvation through the continual exhaustion of the available nitrogen content of the earth's soil.”

It seems fairly clear that this increase expresses itself in nearly all staple industries and in the amount of new gold required annually for world commercial transactions. The League of Nations Sub-Committee on gold estimated the world's increased annual requirements at 3 per cent. The annual average increase in the steel industry over a century past is about 6 per cent. ; in the alkali industry about 5 per cent. Between 1856 and 1907 the world production of pig iron increased on the average 4.2 per cent. per annum, and this may be regarded as characteristic of industrial development. Agricultural development may be put at 1.2 per cent. per annum, which seems to correspond fairly well with the growth of population and improvement of its nourishment. If we assume that food represents one-third of social income, the other two-thirds increasing proportionately to industrial development, the average rate of progress is 3.2 per cent. Three per cent. per annum seems to be fairly characteristic of economic development between 1850 and 1910. The League of Nations' publication, *The Course and Phases of the World Economic*

Depression, shows that in England, with a representative purchasing population of over 40 millions, the annual increase in consumption between 1913 and 1928 of certain staple foods—butter, tea, beef, margarine, eggs, coffee, dried fruit, tobacco, etc.—was about 3 per cent. per annum. For the purpose of argument it is safe to assume an annual increase of 3 per cent., which may easily become more rapid as the scientific world grows older. To quote again from *Why the Crisis?* :

“ It was quite a tenable economic theory that the world’s annual average increase of wealth, having been between 3 to 4 per cent. for the first century of industrial development, might speed up to 5 or 6 per cent., which would mean that America in 1928–29 was possibly only discounting a year or so ahead, and that ten years or more of prosperity and progress lay in front of us, at the end of which the whole standard of living of the human race, particularly the civilized part of it, would be on a level never before contemplated, and bring wealth undreamt of to those who had the courage and the foresight to anticipate this happy event. . . . ”

The permanent increase is bound to be distributed throughout the world.

If this certain increase is taking place, all that is necessary is to adjust ourselves to it, and to proceed from generation to generation of increased prosperity and improved conditions for the human race, the greater part of which needs them badly enough, God knows.

And that this must be a world movement is, I think, upon a moment’s reflection, also clear. For no country which is not self-supporting can become very much richer unless her neighbours also become better off. In any other event, the neighbours will

produce commodities and services at such low cost that the prosperity of the richer will tend to level down. If the Central European communities or Russia produce wheat at far below the cost of the rest of the world, because their nationals are prepared to work for half of the normal adult wages, nothing but a concerted universal international boycott, which is most improbable, could prevent this wheat from spreading about the world and forcing the general average to approximate to it by competition, in proportion to its quantitative relation to the whole. In other words, poverty-stricken neighbours in addition to being poor customers are, by reason of their very poverty, able to destroy your markets wherever they are in competition with you.

Thus we find the true condition of the world is that it gets constantly richer at about 3 per cent. per annum, and that this wealth is perforce distributed throughout the world in the course of time, and in varying proportions. The inventions and the energy and skill of the Westerner naturally bring him the largest share. The increase is unfortunately not completely stable, and this is, I believe, the prime root and cause of the violent booms and slumps which rock the whole world and endanger the progress of civilization.

A certain lack of stability is inevitable, but experience and the greater accessibility of world statistics will tend to diminish it. However, such instability as arises from industrial causes is not serious, and it is only our faulty monetary system that produces the cataclysmic results which are so disastrous to mankind. To make my point clear, I quote again from my previous book :

The uneven flow of the 3 per cent. average annual increase the basic cause of instability.

“ Let us assume we start the year 1920 as zero, then in 1921 the average normal increase should be, say, 3 per cent., but in fact the world consumed on the average, say, 5 per cent. less, so that 1922 starts with a difference of 8 per cent. to be recovered. 1922 consumed, say, 2 per cent. less than 1921, but was entitled to a normal 3 per cent. increase, so that 1923 starts with an accumulated deficit of 13 per cent., plus its own 3 per cent. allowance—16 per cent. in all. Let us assume that 1923 consumed as much as 1922, then 1924 still starts with an unsatisfied potential demand 16 per cent. higher than world consumption. Assume 1924 has a 6 per cent. increase on 1923, then 10 per cent. is carried forward to 1925. Assume 1926 consumes 8 per cent. more than 1925, then 5 per cent. is still carried forward. Assume 1927 is 9 per cent. better than 1926, then the carried forward balance will have been exhausted, and 1929 should only be 3 per cent. better than 1927.

“ But what has occurred in the interval? The manufacturer has experienced a trade recovery. From the extreme depression of 1920–22 he has seen trade revive, and for the last three years (1925–26–27) his markets have expanded at the rate of 6, 8 and 9 per cent. respectively. What is he to do about 1928? He has already added one or more new units to his factory to meet the demand of 1925–27. He has to decide whether he will again increase or allow his rival manufacturers to take the increase that he confidently expects in 1928 and 1929.

“ After these good years he feels confident, in a strong position, with a fine balance sheet and profit-

and-loss account. He can borrow freely from his bankers, or raise fresh money from the public, and he does expand further. Meanwhile he has certainly conceded to trade union demands for higher wages for his men, whom he feels proud to know are sharing his prosperity, and his orders for plant and machinery, and his increased staff to take care of a growing business, all contribute to the general wave of prosperity.

“At the same time the Government with a growing revenue spends more public money, with increasing revenues from taxation, and 1928 shows a further increase of, say, 10 per cent. on 1927 ; and all the manufacturers congratulate themselves on their foresight, their business courage, their energy and determination that provides such good things for everyone, and such prosperity for mankind.

“In truth the world has overspent its income by 7 per cent., but as world statistics are hopelessly inadequate, are usually twelve months late, and are in any case rarely studied by those in authority, this simple but ominous fact is not apparent, except perhaps to a few obscure economists and statisticians, who wail alone in the wilderness amid general prosperity.

“The year 1929 sets out in full swing, but is unable to keep up the pace ; probably it finishes with a 6 per cent. increase on 1928, which gives an accumulated deficit of 10 per cent., for the beginning of 1930. This means no increase of business for three years and then the resumption to normal.

“If this was what took place no one would be a penny the worse off. A few factory extensions would stand idle for a year or two, which would not

particularly matter except to their owners, and, generally speaking, the world would have to mark time. But, unfortunately, owing solely to our bad management, we allow this simple trouble to produce the most disastrous and terrifying results."

I should, perhaps, explain here that by "accumulated deficit" I mean a development of the general power of mankind over the force of nature in excess of what can, for the time being, be utilized. This power may consist of new capital investment in plant or buildings, advance in science and technology or what you will. The whole point is that however bad it may be to allow these assets to remain idle, it is a shocking thing that our financial system will not permit us to do so without producing a disaster, in the course of which money and values throughout the world are thrown for years out of all relation to reality. That is where the "bad management" lies.

Credit which can only be based on the long view the real foundation of the financial system.

The modern financial system is based chiefly on credit, that is to say, the belief in the continuance of civilized existence, in the fact that people will desire certain amenities and commodities and be able to pay for them. To what an extent it is based on credit may be gauged by the fact that President Hoover in his recent appeal to the population of the United States to disgorge the currency that had, rather naturally, been removed from a banking system which produced thousands of failures a year, stated that \$1.00 cash was equal to about \$10.00 credit. No doubt the ablest financial advisers had given him these remarkable figures. The world's finance in other words is based upon the long and the right view in normal times, but when crisis supervenes all

kinds of absurd and meaningless events take place which bring it tumbling to the ground like a pack of cards. Listen to Dr. Eisler in his very clear account of recent happenings in *This Money Maze* :

“As a consequence of the dried-up flow of credits to Central Europe and of the fall of the world price-level through the deflationist conversion of gold claims into bullion, the payment of reparations and the smooth exchange of goods and services throughout the world had become so increasingly difficult that when the financial experts met in Paris in the late spring of 1929 to discuss the commercializing of part of the reparations debts, the situation of Germany—forced to finance its economic life by hand-to-mouth borrowing of its banks—had become sufficiently alarming to create a panic among her creditors when Dr. Schacht for the first, but not the last, time tried the dangerous game of world-wide advertizing of a debtor country's inability to meet her previous obligations just when she most urgently needed new long-term credits.

“The natural result was a precipitate withdrawal of French and other short and sight claims from Germany, causing a catastrophic outflow of almost a billion marks' worth of gold, and forcing the Reichsbank to raise its rate of interest to a new distress level. For the first time it was clearly demonstrated that gold and gold-exchange reserves of some three billion marks were not a sufficient guarantee for the monetary system of a country with eight billion marks sight and short-term foreign obligations.

“The ensuing collapse on the German Stock Exchange had its natural repercussions in Paris and

London, where the Hatry crash had torn a terrific hole in the purse of the City and forced English capitalists to realize on their American speculative engagements and to withdraw the proceeds. Sterling exchange swung round the whole distance from the American gold import to the gold export point between the 24th September and the 24th October 1929. Stock exchange values fell by 45 per cent. between the 30th August and 27th December 1929. . . ."

Here we have an excellent demonstration not only of the uncontrollable instability of the present system but of its false foundation. Central Europe and Germany were supposed to be paying money, that is, goods and services, to the U.S.A. and other nations. As a matter of fact they were not. All that took place was a paper transaction written down by clerks in ledgers, which for some reason everybody took seriously as if something had really happened. In order to complete the cycle, the U.S.A. had to lend back, also on paper, an approximately equivalent amount. In other words, monetary evolutions have taken place which bear no relation to movements of goods and services.

The whole transaction was in the heated imagination of world politicians and financiers translatable at call into terms of gold that did not exist. All went well until someone got frightened and began to ask for gold. Then, of course, the crash came. It reminds one of poker players playing for chips for which they have all paid in I.O.U.s. Suddenly someone says "Let's cash in," and then the real amount of cash in the game becomes apparent. There was once a man who lost \$5000 one evening

at poker, and as he complained next day to a friend, "... \$30 was cash ! "

Bankers, in attempting to make an inadequate amount of gold serve as a basis for all currency notes, on the presumption that only so many people will ask to be paid at any one time as there is sufficient gold stock to oblige, have got the world into a terribly dangerous position; for when the short view supervenes in a crisis there is not enough gold to support the complex credit structure that has been erected under normal conditions.

Meanwhile, many people blame the Stock Exchange collapse for the present crisis. They say it is a judgment on the gamblers who have ruined the world !

The Stock Exchanges as a factor in the financial system.

It is no use blaming the public for making money on the Stock Exchange during the boom. No financial authorities have thought it worth while to create any method of communication with the public to enable them to say *before* not *after* that values were high out of all reason. The public after all are guided by four factors : the press, their brokers, their bankers, and the utterances of prominent industrial leaders. I was personally in touch with financial leaders of the greatest eminence of all leading countries before the crash. Only one hinted darkly and privately at its coming ; many others of equal eminence scouted the idea as absurd. As a matter of fact, financial leaders don't communicate with the public, because they don't know. All this and the excellent analysis of Doctor Eisler show how little relation monetary management has to the continual increase in the world's wealth made by honest, hardworking men and women who are

in good times encouraged to invest in their country's industries.

Mr. Feavearyear says in "The History of the Pound Sterling" :

"There is probably some principle deep down in human nature, or in the system which man has constructed for satisfying his wants by producing goods for a market, which secures that those who take a mortgage upon the means of production in order to live in idleness upon the interest shall in the long run be deprived of a portion of the wealth which they lend."

This is a general view, and means in practice that the world will never repay Government Loans and debentures and mortgages in full if they become too onerous through the change of money values. If, on the other hand, the investing public take a share in the world's risks and invest in industrial undertakings of the highest order, what is the result? It may be strikingly observed in the following comparative table of certain high-class American securities :

| | October 30, 1929. | June 1, 1932. |
|------------------------------|-------------------|------------------|
| Anaconda Copper | 95 | 38 $\frac{5}{8}$ |
| American Tel. & Tel. | 240 | 85 |
| General Motors | 49 $\frac{3}{4}$ | 31 $\frac{1}{2}$ |
| Montgomery Ward | 66 | 48 |
| N.Y. Central | 199 $\frac{1}{2}$ | 9 |
| St. Oil N.J. | 65 $\frac{3}{4}$ | 22 $\frac{1}{2}$ |
| St. Oil Cal. | 63 $\frac{3}{4}$ | 15 $\frac{1}{2}$ |
| U.S. Steel | 185 | 25 $\frac{1}{2}$ |
| Western Union | 202 | 16 $\frac{1}{2}$ |

October 30 has been chosen as an historic date, because it was the day when the Rockefellers *père*

et fils advised the American public that it was a good time to pick up sound industrial securities cheaply.

Apart altogether from currency inflation and credit inflation there are also Stock Exchange and commodity value inflations. If Mr. Hoover is right that every \$1.00 cash equals \$10.00 credit, it is also true that every \$1.00 value of stock market security is worth $\$1\frac{1}{2}$ of credit. This would be at a 50 per cent. margin, which even in the comparative instability of days gone by would have been considered a reasonable and sound investment principle, and not speculative. Yet it was exactly this margin that ruined many people in 1929-31, when security values fell 70 per cent. In this connection, it is interesting to note that between 1929 and December 31, 1931 the value of the 365 leading securities on the London Stock Exchange fell by a total of £1200 millions. During the same time the banks reduced their loans by £84 millions from £981 millions to £897 millions, and all these vast figures hang upon the absurdly slender thread of £150 millions gold in the Bank of England. If all the holders of the 365 leading shares I mentioned wanted at the same time to borrow up to 50 per cent. of their 1931 values the bank could not possibly lend the money. The sum would be £3000 millions and the total loans of the nine clearing-house banks in the third quarter of 1931 were £897 millions, while the total loans of the Big Five at December 31, 1931, amounted to £809½ millions.

Preponderance of credit over cash.

In addition to this, there is some £7000 millions of National Debt, the greater part of which exists in Government securities. If these ceased to be

readily convertible into cash our present financial system would be at an end ; for this would mean that everyone had lost confidence in Government securities, which would fall sharply, putting an end in fact and in theory to the liquidity of all our banks and insurance companies.

The collapse of stock market values, in a world where the major proportion of wealth is represented by paper, entitling the owner to a share in the property or profits of manufacturing concerns is, as can be clearly seen, really more important than currency fluctuations. In fact I do not think it is an exaggeration to say that the country and the world at large would have suffered less stagnation and loss of trade from a currency collapse, assuming stocks-market prices had remained relatively stable (were that possible), than from the contrary. Of course neither is in fact a possibility, but it would be as well for bankers to realize that a first-class collapse of security prices is bound to bring in its train an unsettlement of currencies.

Commodity
prices as a
factor.

Further, apart altogether from securities, there is the question of commodities. The following short table of commodity prices shows the course of events better than words. It is interesting to note that the one industry that has been successfully controlled by a continental cartel—steel—shows a steady price, standing like a rock among the turbulent waters of disaster. The Macmillan Report, in common with many other authorities, maintains that the only hope of recovery lies in the restoration of something approaching the 1928 price-level. (*See Table A on following page.*) A study of the next two tables will show the vast inflation and

TABLE A.—PRICES OF STAPLE COMMODITIES

| | WHEAT. (a) London. | COTTON. (c) London. | WOOL. (c) London. | SUGAR. (e) London. | RUBBER. (c) London. | PIG IRON. (f) London. | STEEL. (f) London. | COPPER. (f) London. | PETROLEUM. (h) U.S.A. | T.N. (f) London. |
|-------|--------------------------|---------------------------|-------------------------|--------------------------|---------------------------|-----------------------------|--------------------------|---------------------------|-----------------------------|------------------------|
| 1919 | 72/11 | 20.61 | 46 | 40/1 | 29 | 7 0 0 | 14 1 0 | 91 | 4.13 | ... |
| 1920 | 80/6 | 26.3 | 55 | 76/9 | 23 | 10 14 0 | 23 1 0 | 97 | 5.98 | 293 |
| 1921 | 72/7 | 10.4 | 22 | 23/5 | 12 | 7 4 0 | 15 11 0 | 69 | 3.33 | 163 |
| 1922 | 47/11 | 12.6 | 25 | 15/3 | 11 | 5 0 0 | 9 3 0 | 62 | 3.17 | 159 |
| 1923 | 42/0 | 16.5 | 28 | 23/8 | 14 | 5 7 0 | 9 9 0 | 65 | 3.10 | 202 |
| 1924 | 49/0 | 16.3 | 34 | 22/2 | 13 | 4 16 0 | 9 3 0 | 63 | 3.39 | 249 |
| 1925 | 52/4 | 12.8 | 29 | 12/4 | 35 | 4 3 0 | 8 11 0 | 61 | 3.45 | 261 |
| 1926 | 12/3 | 9.3 | 24 | 12/4 | 24 | 4 7 0 | 8 1 0 | 58 | 3.50 | 291 |
| 1927 | 12/5 | 9.5 | 25 | 13/10 | 18 | 3 13 0 | 8 10 0 | 55 | 2.91 | 289 |
| 1928 | 10/1 | 10.9 | 25 | 11/8 | 10 | 3 5 0 | 8 10 0 | 63 | 3.10 | 227 |
| 1929 | 9/10 | 10.4 | 19 | 9/0 | 10 | 3 10 0 | 8 10 0 | 75 | 3.66 | 203 |
| 1930 | 8/1 | 7.5 | 13 | 6/7 | 5 | 3 7 0 | 8 10 0 | 54 | 2.40 | 141 |
| 1931 | 5/9 | 5.1 | 10 | 6/4 | 3 | 2 18 0 | 8 10 0 | 38 | 1.79 | 118 |
| 1932* | 6/0 | 4.9 | 10 | 4/7 | 2½ | 2 18 0 | 8 0 0 | 30 | 1.79 | 109 |

(a) Sh. d. per quarter.
(f) £ per ton.(c) Pence per lb.
(h) \$ per barrel.(e) Sh. d. per cwt.
(*) April.

TABLE B.—WORLD PRODUCTION OF BASIC COMMODITIES

I. MINERAL

ooo Metric Tons

| Year(a). | Coal. | Petroleum. | Pig Iron. | Steel. | Copper. | Tin. |
|----------|-----------|--------------|-----------|--------|---------|-------|
| | | Mn. barrels. | | | | |
| 1919 | ... | 536 | ... | ... | ... | ... |
| 1920 | 1,171,064 | 689 | 62.9 | 71.7 | 979 | 124.2 |
| 1921 | 972,036 | 766 | 37.8 | 44.7 | 552 | 94.4 |
| 1922 | 1,047,800 | 859 | 55.5 | 68.4 | 892 | 131.7 |
| 1923 | 1,207,600 | 1016 | 69.5 | 78.6 | 1241 | 141.3 |
| 1924 | 1,192,900 | 1014 | 68.3 | 78.4 | 1340 | 149.0 |
| 1925 | 1,191,500 | 1068 | 76.7 | 90.5 | 1418 | 149.6 |
| 1926 | 1,186,600 | 1098 | 78.7 | 93.3 | 1485 | 151.5 |
| 1927 | 1,286,300 | 1261 | 86.7 | 101.9 | 1551 | 162.5 |
| 1928 | 1,251,900 | 1325 | 88.6 | 109.9 | 1756 | 184.9 |
| 1929 | 1,326,500 | 1498 | 98.5 | 120.5 | 1981 | 195.0 |
| 1930 | 1,209,000 | 1419 | 80.1 | 94.6 | 1624 | 177.0 |
| 1931b | 1,053,000 | 1370 | 55.0 | 69.0 | | 148.0 |

a Calendar Years.

b Provisional figures.

II. AGRICULTURAL

ooo Metric Tons

| Year(a). | Wheat. | Cotton. | Wool. | Cane Sugar. | Beet Sugar. | Rubber. |
|----------|---------|---------|-------|-------------|-------------|---------|
| 1919 | 76,000c | 4004 | ... | 12,640 | ... | ... |
| 1920 | 78,800c | 4061 | ... | 12,740 | 4,820 | 347 |
| 1921 | 90,200 | 3315 | ... | 13,450 | 5,040 | 298 |
| 1922 | 94,700 | 4124 | 1214 | 13,610 | 5,260 | 399 |
| 1923 | 103,600 | 4297 | 1278 | 14,700 | 5,990 | 486 |
| 1924 | 92,900 | 5285 | 1370 | 16,140 | 8,180 | 494 |
| 1925 | 111,700 | 6045 | 1474 | 16,960 | 8,460 | 592 |
| 1926 | 118,900 | 6149 | 1573 | 16,230 | 7,800 | 660 |
| 1927 | 121,300 | 5190 | 1590 | 16,740 | 9,020 | 720 |
| 1928 | 130,100 | 5690 | 1668 | 18,250 | 9,480 | 688 |
| 1929 | 115,000 | 5640 | 1647 | 18,030 | 9,210 | 882 |
| 1930 | 129,700 | 5600 | 1640 | 18,300 | 8,960 | 830 |
| 1931b | 122,300 | 5400 | ... | 17,000 | 11,200 | 800 |

a Crop years.

b Provisional figures.

c Excluding Russia.

deflation that can arise from commodity prices—equal to the worst that currency could attempt.

In the world's stock position alone, thousands of millions are involved, for these commodities exist in large quantities and the total depreciation displayed since 1929 by the figures in Table C amounts

TABLE C.—STOCKS OF BASIC COMMODITIES

| Beginning of: | Copper ooo tons. | Tin ooo tons. | Petroleum Mn. barrels. | Rubber ooo tons. | Sugar ooo tons. | American Cotton ooo bales. | Wheat <i>b</i> Mn. bushels. |
|---------------|------------------------|---------------------|------------------------------|------------------------|-----------------------|----------------------------------|-----------------------------------|
| 1919 | ... | ... | ... | ... | ... | ... | ... |
| 1920 . | ... | 20 | ... | ... | 2433 ^a | 7410 | 171 |
| 1921 . | 339 | 18 | 182 | 224 | 2313 | ... | 164 |
| 1922 . | 411 | 24 | 235 | 234 | 2761 | 8470 | 124 |
| 1923 . | 347 | 26 | 319 | 296 | 2433 | 3111 ^a | 157 |
| 1924 . | 402 | 21 | 414 | 254 | 2255 | 2010 | 192 |
| 1925 . | 389 | 25 | 478 | 181 | 2708 | 2563 | 139 |
| 1926 . | 344 | 18 | 469 | 182 | 3709 | 2927 | 146 |
| 1927 . | 369 | 16 | 476 | 259 | 2643 | 4916 | 181 |
| 1928 . | 323 | 16 | 543 | 272 | 4062 | 4622 | 278 |
| 1929 . | 298 | 25 | 571 | 239 | 4271 | 3494 | 370 |
| 1930 . | 414 | 28 | 630 | 383 | 5614 | 3662 | 412 |
| 1931 . | 535 | 53 | 603 | 506 | 7018 | 6471 | 463 |
| 1932 <i>x</i> | 623 ^c | 62 | 569 | 645 | 8577 | 8738 | 640 |

^a April 1.

^c October 1931.

^b All figures for August 1.

^x March 1932.

to well over £450 million for the seven items alone. The value of stocks held in 1932 is only 47 per cent. of what it would have been had 1929 prices been maintained, although the total quantity of stocks held is much higher. All this, of course, is quite apart from the more or less self-balancing business of commodities which move in the year from production to consumption—self-balancing only in so far as they earn profits. When losses are made, more and

more gaps are torn open in the economic fabric that human sweat and tears will have to repair.

Tables B and C show that the whole disorganization industrially is not so great as might be expected. While stocks have risen they are not overwhelming when compared with the average annual production of the last decade. But when one sees that losses instead of profits are being realized on thousands of millions of pounds' worth of trade, it is only amazing that any industrial activity remains in the world at all.

The real truth is that the whole monetary scheme is not only unsound but unworkable. It presupposes a regular continuance and static condition of trade. This does not exist. It presupposes that politicians will always finance soundly. Centuries of experience prove this to be untrue. It presupposes that stock markets will demonstrate a true condition of affairs in their present condition of organization, whereby members make most money when the public gamble. It also presupposes that there will be enough gold to go round, which there isn't. It is further founded on the idea that central bankers are omniscient and for ever watching world commodities and industrial positions of which in fact they know nothing, and can know nothing, for they are busy banking.

Bank of
England
methods of
control
ineffectual.

Professor Cassel argues that the purpose of the monetary supply of gold is to support a constant price-level. The operations of the Bank Rate are supposed to be an effective means of controlling the domestic price-level, and the open market operations of the Bank an effective means of controlling the volume of credit, supplementary to the control

supposed to be exercised by the Bank Rate. But let us for a moment examine what is thought of the effects of the operation by their chief exponents. I will here bring in testimony only three individuals of the highest acknowledged world authority and in their most serious public pronouncements—the Governor of the Bank of England, in his evidence before the Macmillan Committee set up by Parliament to study these questions ; Sir Josiah Stamp, himself a Director of the Bank of England, Chairman of the L.M.S. and a leader in modern economic thought ; and Mr. R. G. Hawtrey, who is acknowledged to be one of the clearest and most brilliant writers on economic and currency questions of our time. I have stated above several of the many reasons why the present monetary system is unworkable and why the attempt to control the economic machine through the medium of money, that is the Bank rate, gold settlements, etc., cannot succeed.

Sir Josiah Stamp, in his Mond Lecture to the Manchester School on the present position of monetary science, says (p. 17) : “ The normal consequences of raising and lowering the rate of money under a gold standard have been fairly worked out by Mr. Hawtrey and others, but the conditions in which it will fail to act quickly or even at all are not yet defined by monetary theory, and economists are so engrossed in the first-line dogmas of control that every ‘ exception ’ tends to be regarded as an abnormal or pathological specimen.”

Yet from the ordinary man’s point of view there have been such violent exceptions and such frequent intervals that it might be truly believed that the periods of stability are accidental and in no way the

result of any form of control. If my theory of accumulating industrial annual increases is true, it would account for reasonable stability as long as there remained an unsatisfied demand for which the world can afford to pay out of its unexhausted accumulation of annual increase in wealth. Dealing with the question of gold, Sir Josiah Stamp said :

“Professor Gregory has very well said that —Every gold movement which does not tend to produce equilibrium of international prices, results in what is, from that point of view, a maldistribution of gold.”

But we all know that there are many and large gold movements that have no such tendency. The annual movement of gold into the arts is one, and the absorption and hoarding of gold by the East is another. Both of these are utterly outside the control of any central banker, apart from such movements as take place in civilized countries and which are actually performed by some of the leading Central Banks of the world themselves.

Some effects
of changes in
the Bank rate.

Let us turn for a moment to Mr. Hawtrey on the subject of the Bank rate in his latest (1931) edition of *The Gold Standard in Theory and Practice*. On page 83 he states : “Bank Rate is put up to a very high rate and the immediate effect is to make all merchants and dealers in commodities very unwilling to hold stocks of goods with borrowed money. Forced sales drive down prices. . . .” Mr. Hawtrey, in some admirable passages on pages 83 and 84, points out the evil effects of these economic crises on the interests of traders and capitalists (and, as I believe, on the interests of all

progress and all workers—manual- or brain-workers), and continues to say that “the most conspicuous changes in traders’ profits are brought about by causes not within their control. . . .” Nor apparently within the control of anyone else under our present system.

In mounting higher to the fount of wisdom we take the evidence which the Governor of the Bank of England himself gave to the Macmillan Committee. (*Macmillan Report Evidence*, p. 212, vol. i., Questions and Answers, 3319/3332.) Replying to the Chairman, who asked him, in connection with alterations in the Bank Rate (3319): “Have you in view what are the consequences to the industrial position of the country?” Mr. Montague Norman replied, “Yes, but the main consideration in connection with movements of the Bank Rate is the international consideration.” He went on to explain that in his view the international position was of such great importance to industry and commerce that it should and must be the main consideration. He admitted that the present domestic financial system was at the mercy of the international situation. “We are subject to whatever conditions may predominate the international position” (3321). But he firmly maintained that the Bank Rate was effective for preserving the country’s stock of gold, which is of great importance if the present system is to have any meaning at all (3324). “If that instrument is used for the purpose of preserving the stock of gold, is it effective for that purpose?” “It is effective,” said the Governor.

This contention has, of course, proved to be quite wrong, and we have since been driven off the gold

standard. In Question 3328 the Chairman asked him, "If you raise the Bank Rate, internally, how do you conceive that it operates?" "Well, I should think its internal effect was as a rule greatly exaggerated—that its actual ill-effects were greatly exaggerated, and that they are much more psychological than real."

World
financial
system based
on credit
which is a
psychological
phenomenon.

Yet world economics are truly based on credit, for there is not enough gold to go round, and credit is a psychological phenomenon pure and simple. It is the belief not that your debtor will be able to pay you out of his own supply of cash—if he had the cash he would not be your debtor—but that the complete economic cycle will continue to function; that there will be a demand for certain staple types of commodities at reasonable prices; that there will be buyers and sellers of land and securities; in other words, that a regular system of commerce will continue. If everyone went on life's way ready to meet a slump such as we are now living through, world trade would be permanently stagnant.

It is therefore clear that if confidence is temporarily shaken, the whole present system becomes unworkable for the time being, and we ought to provide an institution that can afford to take, and assist our banks to afford to take, a permanently long view. Credit is the sum of two factors—*amount + time*. Now, so far as time is concerned, there is a story of the war which illustrates to what extent the "short" view can prevail.

A certain prominent industrialist went over to Holland at the request of the British Government in order to exchange with representatives of the German Government German securities for British

securities. The lists of securities were checked and agreed, running into some millions of pounds of value. Then each party sat down opposite the other and produced a bundle of securities which he exchanged for a bundle of almost exactly equal value. These were then marked off each list, and another bundle exchanged, and so on, so that in case of disturbance or cancellation of orders at any given moment, the amounts exchanged balanced as nearly as possible.

Here is a case where the time factor of credit is reduced almost to zero, the amount factor depending on a pre-determined sum. At the other end of the scale you have British Government perpetual loans. Here the time factor is infinite, but the amount limited. Clearly, such a perpetual loan would be valueless if a new issue of, say, £10,000 million, were made to-day.

So there is an infinitely graduated scale from the exchanges with the Germans to a British Government perpetual loan, passing through the day-to-day loan, the week-end loan of the pawnbroker (a vital factor in our credit system for which our banks do not cater), the call loan, three months' Bill, six months' Bank loan, five-year notes, the fifty-year redeemable Bond with a sinking fund, to the perpetual loan.

In all of these, time factors, in conjunction with specified limited amounts, dependent on the quality of the borrower, can be calculated into a specific quantity of normal credit value at par. In a crisis, a short view prevails, the securities representing this basic credit fall in value, so that they become adjusted to the "short" view then prevailing, and

the eventual result of this financial astigmatism is the closing of the exchanges.

In the past this panic view only had local effects. A panic in New York could not be reported to London for three or four weeks, by which time it might be over. A panic even in Paris could not be reported for some twenty-four hours. Now such disturbances can be reported in almost as many seconds as it previously took hours. The result is that the world moves all one way in the mass to crisis. Confidence can be shortened in a few days to an extent which is ridiculous if one presumes the world is going to continue on a civilized basis at all. In the comparative isolation of the past the very absence of news increased stability.

Stability demands equilibrium, and in this respect the present system works on a gyroscopic principle, based on the factors of mass and speed. The larger the mass of exchange in goods and services it is necessary to maintain in equilibrium, the greater the financial velocity required to support that mass. If the velocity is diminished by loss of credit, then the mass becomes unstable and eventually collapses.

The real truth of the matter is that no one can control the credit machine, and that methods of an entirely new kind in relation to the credit position must be devised.

Now we observe that in his evidence before the Macmillan Committee, Mr. Norman states that the variations made in the Bank Rate of recent years were with an eye to the international situation, not with an eye to industry, and that in his view "the ill-effects of Bank Rate upon industry are much more

psychological than real." What then becomes of Mr. Hawtrey and Sir Josiah Stamp, quoted above? Sir Josiah says that the normal consequences of raising and lowering the rate have been fairly worked out by Mr. Hawtrey. Mr. Hawtrey says, "Forced sales drive down prices," etc. In fact if this is not the case, then the only object in offering a higher rate by the Bank is to attract short-term foreign balances. This practice is always very dangerous, as dangerous for the London money market as for a private individual to borrow money that the lender can call at will and which it may be disastrous to have to repay. History now shows us, as it did not when this evidence was given, that such a policy only leads from bad to worse, the end being, as usual, that the Bank of England cannot meet its obligations in gold, and Parliament has to repeal the Bank Act. The Governor in all his evidence showed that his policy had not worked out according to plan, because of monetary events *beyond* his control. This is quite true; he cannot be under any suspicion of blame for that, but it seems to me all the more evidence that we must try to create a system not so liable to "jam," to use the Governor's own verb, from outside causes.

In his answer to the Chairman's Question 3340, the Governor naturally agreed that the price-level largely affects industry, and, that being true, it seems hard to reconcile this and the views of Sir Josiah Stamp and Mr. Hawtrey with the view that alterations in the Bank Rate only affect industry psychologically. It is true that a change from 3 to 4 per cent. will not produce any violent results, though this means that the "effective" rate, which is nearly

always 1 per cent. above Bank rate, will be 5 per cent., but above 4 per cent. the effect is much graver for smaller movement. It may take ten minutes to throttle a man. The first six will not do him much harm, the next three will take him longer to recover from, but it's the last one that counts. Once the Bank Rate goes above 5 per cent., which means an effective rate of 6 per cent., or up to 6 per cent., which it was in February, 1932, with an effective rate of 7 per cent., then the results are more severe. For merchants, traders and manufacturers in modern times have not the large margin of profits they had in days gone by. Mass production and the large volume of trade have had the effect of reducing margins of profit, and while volume on a narrow margin will bring in an adequate return for money, no large margin will be left, therefore the extra 1 per cent. between 6 and 7 per cent. has a far greater effect than 2 per cent. from 2 to 4.

There is another way in which a high Bank Rate conduces to depression. If a firm or individual has a bank loan against equities and the dividends fall with the course of the depression, then if the rate of interest rises, the position occurs that while previously the dividend covered the bank interest and left a margin over, the one having risen and the other fallen, the bank interest becomes greater than the dividend. The loan begins automatically to increase in course of time, from interest charges, which must either be met out of other revenue (thereby reducing purchasing power) or else the shares must be forced upon an unwilling market, causing further declines and further forced sales, and again checking normal purchasing power.

For a man's or a firm's annual purchasing power is *not* his annual income, but a sum determined as a rule by the amount of his income plus his capital. Neither a man nor a firm will willingly spend the whole of his income unless he has a large capital sum behind him, and even then perhaps not all. The proportion that will be spent will depend upon the proportion of the capital sum to the total income, earned and unearned. Then again, other firms and individuals at times spend capital, so that in both ways a fall in Stock Exchange securities diminishes effective purchasing power. Mr. Hawtrey estimates that in Great Britain people save about £1½ millions out of an income of £11 millions a day. What must be borne in mind is that with rising salaries, wages and profits, and with savings that have been invested in appreciating property, as in time of boom, some of the profits on these savings are spent as current income. Further, in good times salary increases are freer and more general, and wages can fluctuate violently without any change of standard rate through the difference of short-time and over-time working.

I do not believe the orthodox view expressed by Mr. Hawtrey in his 1931 *Gold Standard*: "The trade cycle is a credit cycle." I have already put forward my views on what produces the trade cycle, but I go further. Credit is always restricted in fact *after* the fall begins; in practice, almost at all times, as bankers have continually affirmed and re-affirmed in their evidence before the Macmillan Committee, legitimate trade and industrial demands for credit have been met. What creates credit in practical banking is the *security* of the borrower.

Purchasing power and capital savings.

Credit restriction in practice usually follows, not precedes, falling prices.

Once markets begin to slide, securities—be they equities or bonds or commodities, or land or what not—begin to slide too. *Then* the banks restrict credit because they require more tons of copper or shares in a factory or acres of land for the same loan than they had before, but I do not believe that the usual theories of the Central Bank curtailing or increasing credit *via* the banks ever really work, or very very seldom, because the amount of lendable money a bank has is almost always, owing to its conservative management, so much in excess of any normal new demands likely to be made that market operations to increase or decrease the ratio of cash to deposit, and thereby increase or decrease the total volume of credit, only operate in extreme cases.

Uncontrolled industrial progress a great factor in the instability of price levels.

However, what do affect world prices, and through prices, securities, and through securities and commodities, the volume of credit (for the amount of unsecured accommodation granted is very limited), are industrial invention and progress, over-production, over-building of obsolete plants, the development of new markets, the closing of old ones (due to tariffs, or what not) ; the erection of new modern plants with labour-saving and cost-saving devices, new processes, relative international wage-levels and, above all, stocks of commodities. I again repeat from *Why the Crisis ?* :

“ A peculiarly foolish thing about stocks is the fact that they can increase in terms of months of supply while they diminish in actual quantity. If the world normally uses 1000 tons a year, say, of our old friend glue, and there are 500 tons in stock, there is six months’ supply, but in a slump the world

only uses 500 tons, so that, even if the stock is reduced by 100 tons to 400, it has become eight months' supply instead of six. Then the price of glue falls precipitately because the glue-makers try to liquidate their stocks. But in fact they are only trying to sell glue to their own shareholders and workmen, who, having no dividends, and short-time wages, simply cannot buy the stuff, however much they may have that needs sticking together. . . ."

The best presentation I have seen of this is by Sir Henry Strakosch.¹ He very rightly denies the cause of the crisis to be "neurasthenia" or over-production, but attributes the trouble to reparations and war debts.

I do not believe that these, vital as they are, are more than contributory factors, large, it is true, but not fundamental. There were plenty of crashes before reparations began. The chart² that accompanies Sir Henry Strakosch's article shows a slight deviation above normal production for 1929, but this is only for U.K., U.S.A., Germany and France ; taking the world over and including Russia and South America, the British Empire, Italy and Central Europe, this would probably show the 10 per cent. exaggeration which I assume in the theory of accumulating percentage increases.

Causes of the
present
collapse.

A slight underproduction in the last quarter of 1928, somewhat exaggerates the position ; and to these natural and normal phenomena must be added the entirely abnormal inflation in the New York Stock Exchange (due to the novel factor of the vastly increased numbers of people dealing in securities), plus the lack of balance created by war

¹ *Economist*, January 9, 1932.

² See p. 100.

debts and reparations, and the tariff policies pursued by various countries since the war.

We must not overlook the fact that the world's credit structure is organic and dynamic, and in the modern world, with vastly increased facilities for speculation, the limits of fluctuation are much wider than any that have been hitherto experienced.

All these matters are supposed to be controlled by the monetary machine. But we have the evidence of those who work it. They aren't. The monetary machine is controlled by these factors and by the absurd attempt at international capital movements expressed in terms of a substance, gold, of which there is not enough. But apart from the latter, which I will deal with later, the system is like a great clock, a Big Ben, controlled by a hairspring, the regulation of which no one understands, and which at times is not strong enough to do its job.

We see that fluctuations in security prices, loss of profit, due to unrestrained and often uneconomic competition, the attempt to move on paper from country to country amounts of capital that are in truth immovable, all create forces of disturbance which cannot be controlled by either the Bank Rate or open-market operations.

The attempt to control world economics through a series of currencies theoretically exchangeable by the medium of gold is doomed to failure.

The world, situated as it is to-day, cannot easily expand or contract its standard of living, which this system demands, as in days gone by, when our methods of life were more rudimentary.

Now these broad generalizations come right back to the life of the ordinary citizen : his present and

Present
system
obsolete.

his future ; the amount he can afford for the education of his children ; how much he can afford to pay for doctors ; whether the house he is living in is above or below his means ; whether he can afford his insurance policies, etc., upon which his wife and children would depend if anything happened to him ; whether he will have his salary reduced by a government or by a company forced to economize, or whether he will be axed out of his job (as I write I read that 13,000 men have been " axed " out of a railway company during 1931, in order to economize, due to loss of traffic, and to the stagnation in industry) ; and, above all, to the workman the simple questions of his job, his wages, his rent and his " dole."

These cannot all be made to fluctuate violently without creating a disturbance which will injure the civilized part of the human race for two or more generations, and terribly delay the progress which the scientist and the industrialist are prepared to bring us.

Then, let us for ever do away with this inadequate economy based on antiquated notions. I am sure that the wit and need of man will devise something better.

CHAPTER II

CURRENCY AND BANKING

IN dividing up the subject-matter under consideration into chapters, there is the considerable difficulty of the overlapping of different questions, and their intimate relation to each other. Currency is a subject which affects national and international finance and banking, but in my view, there are three totally different aspects of currency. Firstly, the domestic aspect ; secondly, the budgetary or national finance aspect; and thirdly, the international aspect.

Financial
reform held
up by
political fear.

Now it seems to me that of late years a great many avenues of exploration and inquiry into banking and currency questions have been closed by fear, the fear of the accession to power of an uneducated Socialist majority who would embark upon Nationalization and attempt to cover the disastrous effect of their errors by wild inflation. I feel certain that such a fear is both unworthy and unnecessary. The work of the Melchett-Turner Conference showed that in the Labour movement there was a sane and responsible body of opinion, and the result of the 1931 election showed that the voters of this country had no desire to entrust financial experiments to untried hands. Further than this, the results of the present system are in themselves so disastrous that the best defence which ordered Society can have is a

sane advance along reasonable lines, or its ranks will be broken by the press of the discontented masses from behind who will not fail to become attuned to the idea that even desperate experiments are better than no advance at all.

A study of the early history of banking is, in itself, a study of the early history of currency. There were two main requirements that produced the honourable profession of banking. One, to have a safe place to store money, where it could be conveniently drawn upon at will ; the other, the desire to be able to raise loans in order to have immediate cash, either in anticipation of the sale of some asset, or what you will, or in order to avoid having to sell an asset worth, say £10,000, in order to provide, say £3000 ready cash. A man with a good business head, a first-class reputation and a substantial fortune, could therefore earn large profits by providing both forms of accommodation, but still further, he was able to offer interest to those who would leave their coin or notes in his possession, and then could, and did, re-lend the money so obtained to others at a higher rate of interest.

The rudiments of Banking.

This, of course, was extremely convenient for everyone concerned, and was the means of mobilizing the continually increasing accommodation required for expanding trade and the growth of industry. In performing this operation, he naturally took a considerable risk, which was that those to whom he owed money (that is, those who had deposited with him at interest) might demand it back in such quantities and at such times as he was unable to collect from those who owed him money.

This is stating the business of banking in its simplest form. This risk continues through the long and stormy history of banking, exists for the Big Five themselves, and even for the Bank of England to-day. It is the cause and reason for the limitation of the amount which modern bankers can lend. Even the Bank of England has exactly the same situation to face, though in a slightly different form, as long as it is under an obligation to pay out gold.

The
necessity for
liquidity.

A study of banking theory and history, or the evidence of bankers before the Macmillan Committee, shows that this underlies every consideration that affects banking. Being in a position to pay out sufficient to meet demands is called being liquid, and nothing is more vital in the present situation than being in a liquid position. The reactions, however, of the steps necessary to maintain liquidity, are sometimes disastrous. A loan of £3000 may have been granted against a perfectly good security, which over any period of ten years would fetch £5000. A depression occurs which lasts for two years, during which period a forced sale of the security would result in it fetching say only £1000 or £2000. Nevertheless, the bank must be liquid, and in many cases the forced sale takes place. If the security happens to be some object in which there is a public market, the sale will reduce the value of all other objects of the same character, and further forced sales will take place. These operations—utterly necessary under the present system to keep the banking machine liquid—are like pick-axing the foundations of a brick wall, which is going to fall on top of you. It has been tersely,

but unfairly put, that a bank is like a man who lends you an umbrella when it is fine and wants it back when it rains.

The banks cannot help themselves in this. It is true that each forced sale sets up a cycle of further forced sales by other bankers, and then, by the continuance of the price slump, further forced sales by the original bank ; but in this operation, from the bank's point of view, the property held against a loan of £3000, which then realizes say £1000, passes into the hands of one or more other individuals, whose financial position is stronger. The original proprietor has to find the £2000 from some other source (again causing falling prices by the forced sale of some other property), and may go bankrupt. On the whole, relatively few bankruptcies take place. The banks are not so brutal with their customers, but it may be the case that after a depression some of them are much poorer than before, or may even be in debt to their bankers for a long time afterwards.

It is also the case that in a prolonged depression those who newly acquired the properties sold, and who, very likely, did so partly with bank money, may find, owing to continuing falls in price, that they also are in trouble, for, by this time, this operation will be taking place throughout the world, the number of sellers increasing and of buyers—at any price—diminishing, till, as we have lately seen, Stock Exchanges, etc., have to be closed from time to time. The late Sir Howard Frank told me that during 1931 a property in the City of London, fully let, was put up for auction at a reserve price which would have yielded 7 per cent., and yet failed to

The
whirlpool
descent.

attract a single bid for the first time in the history of the City. So ruin is spread, but on the whole the British banks keep themselves effectively liquid. It is this same necessity for being liquid that determines that normal bank loans are for a six months' period, and that requires the idea of a "revolving" credit.

The banker is an ordinary mortal and not a superman. He cannot possibly know the details of the businesses of the thousands of accounts he handles, nor all the relevant affairs of all his customers. He has learned by long experience one effective guide for all accounts that pass across his desk daily—do they move? If there is movement, "a good swing," the money paid off for a time, even if borrowed again later, then the position is liquid. From a practical point of view, this is perfectly true. Even if it only means that some other bank has provided the accommodation in the interval, at least it means that some other individual with banking experience has confirmed the fact that the account is sound, the resources of the customer ample. In other words the one vital question is, Can the bank get its money back?

Strict observance of sound banking policy, conservatism, an innate traditional knowledge of business handed on through generations, and, above all, sound character from top to bottom, has made it possible that in England there have been no bank failures, while in the U.S.A., France, Germany and elsewhere the failure of the banks has been a constant phenomenon of the present depression. It can be said that the banks in England are too big to be allowed to get into difficulties—this is

quite true, but no answer. One wonders what might not have been achieved in the way of trouble had banks of the scope and size of the Big Five been managed differently. But this is all within the present system. Industry and the country may rock and reel, but the banks stand firm as long as the British Government credit is good—so long as they can support the price of Government securities at a reasonable level. A 50 per cent. depreciation in British Government securities would ruin them all. The whole banking system would have to go west, beginning with the Bank of England. This important point has various logical consequences which are dealt with in the chapter on National Finance.

All this has nothing to do with economic theory. Generally speaking, bankers are not much directly concerned with economic theory. I suppose if the boards of the ten clearing-house banks were lined up and given a list of the twenty leading books on currency and economics written in the last decade, and each was asked to mark the ones they had read, an average of 15 per cent. of those present would be found to have read an average of 30 per cent. of the possible total. It is not, however, the banking *policy* of England which is wrong, it is the system for which that policy has been created.

Practical
banking
divorced from
economic
theory.

In theory, of course, the complete liquidity of banks is unattainable, because if all depositors required their money back at once during a crisis, no power on earth could enable the sales to be made in collapsing markets so that all loans might be repaid. To-day, in point of fact, the Big Five

and the Bank of England have become a sort of National Cloak-room where the nations deposit their wealth and savings and get tickets in exchange. The trouble is that if real wealth is deposited—titles to land, factories, houses, rents, etc.—and tickets are taken out against them, the owner may be ruined. But provided he only deals in tickets, which have no value at all except by custom, he is all right.

Currency
reforms.

I believe a radical but perfectly safe change can be made that would fundamentally alter the position of the banks by making them always *automatically liquid*, so that all the considerations that to-day lead to the disastrous train of events I have just recited, and by causing a temporary check in the industrial machine lead to a first-class credit and price crisis, would no longer be present.

Let us first consider the national aspect of the question and the real national requirements of currency. War and post-war experience has shown that in the modern world all that is required for currency, so far as the public are concerned, is a note in which debts are legally payable. In days gone by, legal tender for sums up to £2 was silver currency, and above that Bank of England notes or gold. The Bank of England notes were exchangeable for gold. In 1914 it was found that people would quite happily use £1 and 10s. notes based on nothing but the credit of the British Government, which is the taxable capacity of the British people. So far as domestic currency is concerned nothing else is necessary. The printing of an extra £1000 million of notes might have no effect at all on the currency position. The amount of currency that

goes into circulation depends upon the amount for which there is public demand for the settlement of small accounts, wages, etc. Apart from this, in England the currency is supplemented by the cheque, so that if currency were withdrawn and more cheques were used, the net effect would be *nil*, except a little extra inconvenience to the public. Difficulty only arises in connection with foreign exchange. In the next chapter I propose to deal with that point. In the meantime we will suppose that the currency in question will be Government notes of 10s. up to £100, and that they are legal tender for any debt in the Kingdom, up to say £1000. Just as it was found convenient to limit the amount that was legal tender in silver, I believe it would be convenient to limit the amount for legal tender in notes. This would constitute a check, but not an absolute bar, upon the export of capital in the form of domestic currency. Above £1000, a guaranteed bank cheque on a recognized bank would be legal tender. This would mean that the hoarding of large amounts of domestic currency abroad would become dangerous, because foreigners would be disinclined to change large sums.

The security behind the notes would be the taxable capacity of the British people. The fact that they were not legal tender for more than £1000 would be a theoretical check upon the amount likely to be drawn into circulation. The guaranteed cheque of recognized banks would be legal tender for any amount. The number of notes to be issued would simply be the number required by the banks for purposes of circulation. This system would, of course, be impossible if the domestic note issue

were directly related to gold. I see no reason why it should be. I believe all experience goes to show, firstly, that under such a system the number of notes in circulation does not unduly increase; secondly, that it is impossible to create inflation simply by trying to force notes on the public; thirdly, that such a note, while being freely accepted by the public, would never be hoarded in large quantities. A domestic currency of this type may seem shocking to the orthodox, but it is founded on common sense.

Insufficient
gold for
present
system.

For years there has never been enough gold to redeem more than a trifling proportion of the currency, so that it is idle to pretend that the connection between the two served any other purpose than that of a price regulator. Now I propose that such a regulator shall continue to exist, but it is essential that we should be clear as to the purpose of gold behind domestic notes. For years notes have not in truth been redeemable, and in a crisis, the only occasion when anyone might seriously want to redeem into gold, Parliament has obligingly relieved the Bank of England of its statutory and solemn obligation, and quite rightly too. Therefore it is really useless to attempt control domestic currency by the quantity of gold available. In the first place, no one can control the quantity of monetary units—one can only so hamper the natural operations of industry and commerce as to produce a greater or smaller collapse. If any really violent restriction took place, there would be a rapid expansion in the use of cheques: in other words, people would create their own notes. There can, therefore, never be a real control of the quantity in circulation. That

fiction only exists in the mind of the financial world, and is based on the old, old metallic traditions.

Now the one thing that might create an abnormal demand for notes would be a run on a bank. If, in fact, there was a run on one of the ten clearing-house banks, certainly on one of the Big Five, everyone knows that public action would have to be taken and the banks' doors kept open. The amounts now lodged with the clearing-house banks are so large that this would be a national, not an individual, question. For all purposes, except management, the banks can be counted as one concern. After all, the normal bank has from £200 million to £300 million of deposits and from £10 million to £15 million of capital. The responsibility to the depositors is of a national character.

But all this would in no way ease or even assist the credit situation or relieve any of the difficulties that I have described above. Those difficulties arising out of the problem of theoretical liquidity are really of this nature. Normal business is conducted on a long view. Far-sighted men are praised as national assets. In a slump a form of mild panic supervenes. The short view predominates. It is no use saying to a banker: "But these are shares of an excellent company, with a wonderful record of twenty-five years behind it, and in normal times they are worth £2." He says, "What is the Stock Exchange quotation—10s.?" Everyone knows that in due course, when the slump is over, sound shares will recover their values, but that plays little or no part in the transaction. What are they worth to-day? Next week, to-morrow, in ten minutes, they may be quoted 50 per cent. higher or lower—

A psycho-logical change from long to short view creates a crisis.

that makes no difference. It is all absurd and ridiculous, but, in order to maintain a reasonable degree of liquidity under the existing system, it is essential and cannot be avoided. Now if some beneficent fairy godmother would take an office in Threadneedle Street, and say, "I will lend domestic legal tender currency notes against securities at 50 per cent. or 60 per cent. of what I judge their true value to be, and the market value, which is meaningless, I shall not take into account," this type of trouble, the whirlpool of descent of prices of commodities, securities and royalties, would never take place.

Proposal for
a Bank of
England
Discount and
Securities
Corporation
to provide
for a per-
manent long
view.

My proposal is to create such a concern, which might be called the Bank of England Discount and Securities Corporation. Among the securities it would take would be such debentures of companies as are pledged as collateral to the bank, also commodities, real estate, Stock Exchange securities, and generally an approved list of securities upon which the Big Five are customarily disposed to make advances. The banks would be asked to go to this office, put in the security at the valuation when the loan was made, and draw out a credit slip or cheque on the Bank of England for Government notes. The advances would be made on 50 per cent. or 60 per cent. or 70 per cent. of the security on a fairly definite scale. The Corporation would have a pretty good knowledge of limited liability companies and of real estate, etc., and would very soon have the schedule against which they were prepared to advance. The banks, of course, would remain liable for their own losses, but they would always be liquid. Let us just look

at the consolidated figures of the Big Five in 1931 :

| | |
|----------------------------------|----------------|
| Deposits | £1,563,000,000 |
| Advances | 807,000,000 |
| Acceptances | 93,000,000 |
| Bills discounted | 211,000,000 |
| Investments | 234,000,000 |
| Cash and money at call | 287,000,000 |

Now, as this Corporation would take bills as collateral, the banks would therefore be in a position to turn into cash at will firstly £211,000,000 of bills, secondly at least 80 per cent. of their investments, which are 90 per cent. Government securities, say £187,200,000—their acceptances do not become liabilities unless they have to take up the bills, in which case they come into the category of bills discounted—and thirdly, of their advances say about £400,000,000; in all £798,000,000, say £800,000,000. This, added to their £287,000,000 cash and money at call, would give them £1,087,000,000 liquid in cash at will against their total deposits of £1,563,000,000, the balance being advances made against no security (which are rare and are becoming rarer), and advances made against say 10 or 20 per cent. margin, which the Corporation would only discount against 30 or 40 per cent. margin. Now, let us suppose that this Corporation is, in fact, brought into existence by the British people, with all the great wealth of this nation behind it ; let us suppose it is called the Bank of England Discount and Securities Corporation, or some such title ; let us suppose it is incorporated by Act of Parliament ; that the Government guarantee it £1,000,000,000 of credit, and that the Bank of

England are required by amendment to their Charter to cash its cheques for domestic currency notes, and the picture begins to fill in and become remarkably like some of the arrangements now (February 1932) being made by the Government of the U.S.A. This may appear to be a drastic and inflationary proposal, but it should be borne in mind that the present structure, running into thousands of millions of pounds, is carried on the slender foundation of a total of £400 million of currency of which some £50 million is usually in reserve.

What real risk would be run ? The banks remain liable, as before, but infinitely liquid. Such a thing as a run on a bank becomes as out of date as a muzzle-loading cannon on a modern battleship. Suppose losses were made on the collateral discounted, the banks would be liable as they are now. Their resources and profit-and-loss accounts would suffer in exactly the same way. They would be just as careful in making loans, possibly even more so. Many writers have complained that one of the difficulties of our banking system is the fact that in good times the banks tend to lend too much. The "scale" adopted by the directors of the Discount Corporation would serve as a guide and a check. The banks could never become frozen. Their *tempo* could and would alter to suit the new conditions. Loans without security could be made for six-monthly periods, loans against security for 2, 3 or 5 years, thus meeting the point so strongly pressed in the Macmillan Committee Report, that there is nothing in the present system that provides for the interim finance of industry.

The public issue provides for long-term finance; 20 or 30 or 60 years' redeemable debentures with sinking funds, then a drop to six months' bank advance. The Discount Corporation should have the power to take in 1, 2 or 5 years notes of first-class industrial concerns whose balance sheet and general position warranted such credit, as opposed to the present method of industrial overdrafts and loans. I think that an obligation would have to rest upon the banks to use these facilities. Firstly, they would not be allowed to make more than 25 per cent. of their total advances without security; secondly, they would be bound to discount at least 50 per cent. of their available paper. This would be necessary in order to have the machine in working order. The directors of the Discount Corporation should be one-half independent industrialists and merchants, and one-half representatives of the Treasury, the Bank of England, and the Joint-Stock Banks, with a Cabinet Minister as Chairman. The worst risk that would be run is that if the loans were not repaid the Discount Corporation would own the greater part of the factories, lands, houses, etc. in England, which are, after all, in the long run the only things worth owning or ownable on a large scale.

There could be no inflation in the old sense of the word. What would be achieved would be a permanent provision against the financial machine freezing or being inexpertly tampered with. For instance, bankers would no longer have to worry about their ratio of cash to deposits. It would always be enormous. The only limitation of loans would be the security which could be offered.

Since it is the loans that create the deposits, they would also grow, but as the security against it would be carefully checked up by the officials and board of the Discount Corporation, there would be less likelihood of danger from unwise lending on a large scale. The lending would simply meet normal requirements. Loans against certain classes of securities would be agreed upon. For instance, if the National Discount Corporation settled that they would discount up to 40 to 60 per cent. of the value of first-class industrials, 50 to 70 per cent. of first-class preference shares, 60 to 80 per cent. of first-class debentures, 80 to 90 per cent. of Government securities, say 45 to 65 per cent. of first-class insurance ordinary, up to 80 per cent. first-class mortgages on approved land and houses, 75 per cent. on commodities unless in transit (I deal with the commodity situation in a later chapter), according to the state of trade, these limits would soon become recognized; bankers would only lend those amounts, and the public would expect no more. A small proportion of people might go to firms other than bankers and borrow a higher percentage and pay higher interest. If the proportion of outside lending tended to increase, it could very easily be checked by refusing facilities at the banks to firms who indulged in such practices.

The
responsibility
and
difficulties
of the Bank
of England.

Another effect, of course, would be that the open-market operations of the Bank would become superfluous. By these operations the Bank of England, without much success, might attempt to control the volume of credit by surreptitiously suppressing or increasing the volume of cash available in the City.

If the Bank buys Government and other securities it pays cash. Whoever it is paid to, it finds its way into the offices of the banks, who then have plenty of currency available. If the Bank sells securities they are bought up here and there as soon as they fall fractionally, and the cash for them is drawn out of the banks and goes into the coffers of the Bank of England. This practice is carried on most secretly, so that no one in the City knows where they are from day to day. It is an entirely artificial device based on no logical notion, the idea being that you can strangle the entire commercial community by pressing the thumb on its wind-pipe and then let it have a little more air if you think it good for it. The whole country is indirectly affected by these operations, which are secret and are bound to be shots in the dark. The evidence before the Macmillan Committee in regard to them makes curious reading. It would be a great benefit to the commercial community and a great relief, I am sure, to the Bank of England, if by a change of system these operations became normal and harmless. For under the system proposed it would not matter whether the Bank bought or sold any more than if Mr. Smith did. If a bank had Government securities pledged they could go to the National Discount and get a credit from them and the Bank of England would produce notes in return, or a credit balance available in notes. It would also do away with the discreditable and undesirable business of "window dressing."

This operation is really neither more nor less than The high character of the British banks. deceiving the public by presenting figures which, although they are accurate, conceal the whole truth.

It is common knowledge that in some cases last year this practice was indulged in to an extent that can only be described as ludicrous and quite unworthy of the high tradition of British banking. It is impossible to lay too much stress on this high integrity and its importance in the whole British commercial system. It is well known that banks abroad are, in many cases, corrupt. In no country but our own has the cheque and bill system been extended as it has in England. This is due solely to the high character of the British banker. His influence has spread throughout the vast organization of the Big Five and the other banks. Nothing should be done to weaken or diminish this influence. It takes centuries to create a system on that high level, and once destroyed, it would take centuries to build up again. I would depend, with the utmost confidence, upon the skill and knowledge of the bank boards and officials on the whole question of the management of the nation's deposit accounts and loans.

British
financial
power based
on British
industry.

But it is not their job directly to settle and fix the economic system of the country, nor, lacking industrial experience, are they best suited to do it. For it is upon industry, not upon banking, that England has grown great. England's banks have grown great because the industrialists of England have employed her natural resources and her population to make her a great and prosperous community. How great, how prosperous, almost passes comprehension. One thing is certain : That we have never employed the whole of our national resources in order to try to overcome the national difficulties that face us, and which are indicated by our

great burden of 2,500,000 to 3,000,000 unemployed.

Our national income has been estimated by the most competent, reliable and conservative authorities at £4000 million a year. Let us take it at £3000 million. If that were capitalized at 5 per cent. it means that our capital wealth would be £60,000 million. That is what British currency is issued against, not £150 million of gold bricks. Sixty thousand millions of pounds worth of roads, railways, wharves, warehouses, fleets, towns, farms, factories, power stations, coal-mines, quarries, that rich fair island, where you can't get a factory site that isn't always almost on the seaboard. Our National Debt is £7000 million. Only £1000 million is external. Some of the remainder has been bought by foreign nationals. They cannot expect better treatment than we afford to our own nationals. We have some £4000 million of foreign investments, so that in reality our position is that our Debt represents some 1 per cent. of our national wealth. That does not mean that we can pay large sums abroad, but it does mean that we need have no fear of our domestic position.

We can create all the currency and all the credit that we need for our development upon a 3 per cent. per annum increase basis. We cannot at present go faster than that. I do not think that there would be any tendency to increase any faster, but if there were, it would always be possible for a conference of bankers and the directors of the Discount Corporation to meet and inform the public in a signed statement that fresh credit would be more sparingly

granted for the future. This has never been possible in the past, because it would have precipitated a crash.

How the proposed system would operate at a time of disequilibrium.

No crash would be possible under the new system. Let us work out an example on similar lines to the present crash. To begin with, we have the position of the world having gone ahead rather too fast and needing to halt for a year or so. That is, basic industries and raw material and food production are above the normal average increase line, and must come back to it. Surplus plant exists in many countries which cannot for the time being earn profits. In due course, in two or three years, these plants will be needed again; meanwhile, they represent real capital. Stocks of commodities have also increased beyond the normal average, and the special steps which I set out in *Why the Crisis?*, Chapters III. and IV., and which I deal with again in Chapter IV. of this book, come into operation. There is also an unnatural drain of gold through large and unusual capital movements, such as the capital movements to France and America through the payment of international debts and reparations, which characterize the situation to-day.

The present system.

Under present conditions, we know what happens. Liquidation sets in, probably started by some accidental cause. Somebody does the wrong thing. In the present case, of course, the central banks broke the Wall Street inflation with enormous bank charges. Then followed the dramatic Wall Street collapse; first of stock market prices wiping out about £5000 million of value in 1929-30, and another £4000 million of values in 1930-31, in all bringing them down from £18,000 million in the

peak of '29 to about £9000 million in the depression of '31. (It is interesting to note that the Bill recently passed by the U.S. Legislature, which in some respects resembles my proposals for the Bank of England Discount Corporation, and which will free about £200 million of gold, temporarily raised Wall Street values by £1200 million in two days.) In addition to the Wall Street decline, the fall on the London Stock Exchange, which was purely sympathetic in the first instance, wiped out a further £1200 million of values in 365 leading stocks alone. I have been unable to obtain the figures for France, Germany, Italy, Belgium, Czecho-Slovakia, Austria and Poland. They must amount to at least another £1000 million. If one takes the whole fall on the London Stock Exchange as being only twice the amount of the decline in 365 stocks, then one arrives at a total for Europe of, say, £3500 million. Further, of course, there has been the decline in South American, Australian and Canadian Stocks, Bonds and Government Securities. It is estimated that British foreign investments have fallen in value from £4000 million to £2500 million. Some of these no doubt were included among the 365 leading stocks, so let us take only another £1000 million there, and another £1600 million for the Empire and the world outside U.S.A., Europe and South America. That gives a grand total of £6000 million plus £9000 million in U.S.A., or £15,000 million up to March 1932—since when things have become very much worse—a very modest estimate, since more than half is the statistically accurate fall of Wall Street. Those stocks on a 50 per cent. margin represented £7500 million of

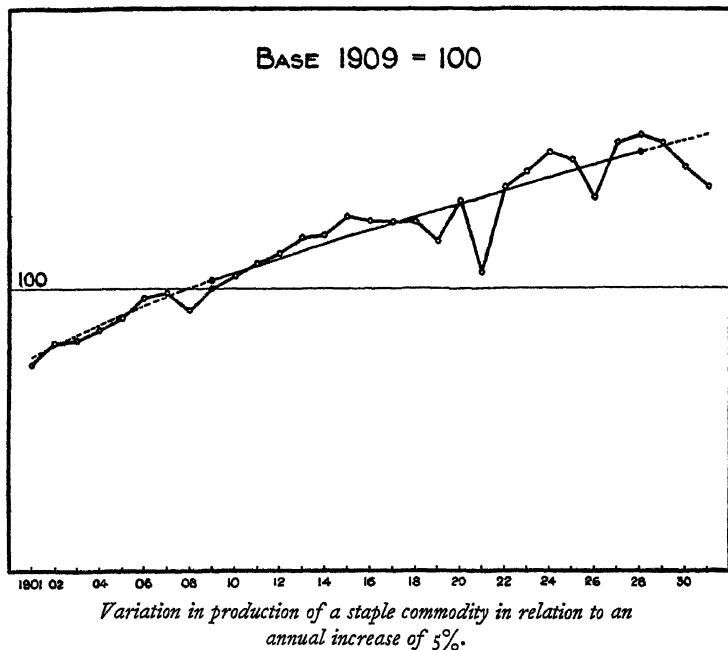
credit to the world-potential reserve purchasing power, like savings of individuals, reserve investments of companies, the total investments of trust companies, etc. etc.

To this fall must be added the fall in commodity prices and stocks of manufactured or semi-manufactured articles, amounting to several thousands of millions of pounds. This has, for the time being, completely destroyed the purchasing power of the whole world. Loss of profits, loss of dividends, loss of salaries, loss of wages, loss of rents. It has knocked the world right off its monetary balance and almost destroyed the banking system of the U.S.A. Well over 2000 banks failed there last year, locking up £400 million of depositors' money, and causing the more fortunate and wiser depositors to withdraw a further £300 million of their money to look after themselves. It was a very sensible thing for them to do, for after all it is the banker's, not the public's, business to provide safe banks.

A glance at the tables of world figures (shown on page 18) displays the fact that by the end of 1931 production in former leading countries was well below the 1925 figure, and many individual staple industries showed that they had gone back to 1921 figures. I show an example of a staple basic British commodity with a large export business on page 55. In other words, in seven years the world is presumed to have made no progress. Now, as a matter of fact, we know that it has progressed at the rate of about 3 per cent. per annum, or 21 per cent. over that period, so that the whole thing is utter nonsense and indicates gross mismanagement. Whatever readjustment was

necessary it was not essential to smash the whole economic machine with a sledge-hammer to do it.

Had the system we are discussing been current, ^{The proposed system.} how different the result. Whatever happened on Wall Street, the London Stock Exchange would have suffered no forced liquidation. Under reasonable



Stock Exchange regulations (dealt with in Chapter V.) a few people might have sold in fright, but there would have been no forced sales and no selling panic. Securities might have declined 20 or 25 per cent., but this would not have affected collateral at the banks, who would have discounted their loans with the Bank of England Discount Corporation at much greater margins, and as the loans have a period

to run, the bank would have no interest to force sales, except in cases of definitely "shaky" concerns. The banks themselves would never have to give a moment's thought to their liquidity. The total amount to which the ten clearing-houses reduced their loans from the height of £981 million in 1929 to £897 million in 1931, is under £90 million, or just about 10 per cent. Not half of this can be said to be due to Stock Exchange securities, so that the banks would be in a perfectly safe position to carry their customers over the crisis until better times and rising markets made the process of liquidation easier and less onerous.

The knowledge that such a cushion existed would have a most steadying effect upon the public, and when we come to deal with the Stock Exchange direct, it will be seen that it plays an essential part in establishing the equilibrium of that institution. In the case of money advanced against commodities, the same arguments would apply. Briefly, the banks, having nothing to fear, would not be forced to add, and to add heavily, to the dangers of an already difficult position by forced liquidation and the contraction of credit. This would prevent the catastrophic fall, for in all the collapse cited above, probably not more than 15 to 20 per cent. of the total numbers of shares or bonds in each company or foreign loan in fact changed hands. But when there are no buyers the sale of an insignificant quantity of stock will produce a heavy fall, thus uncovering further positions and producing a further catastrophe. It would also prevent the total freeze-up that follows this train of events. The banks being liquid would be able to grant loans, and property not having

fallen to such a violent extent, far more credit would be available and more purchasers would exist. The worst that could have happened in the present crisis would be that the Discount Corporation would have some £700 million of collateral (assuming £200 million of bank loans to be without security), of which some £90 million would be uncovered for a period of two or three years, this being the amount by which the banks have reduced their loans from 1929 to 1931. A fall in the nominal value of real estate, commodities and securities, amounting to thousands of millions, would have been avoided.

The question, of course, might be raised : How far can England alone stand up against a world decline ? Our foreign investments have declined, not because of our Stock Exchange here, but because the commodities sold by other countries cannot be sold at a profit. The answer is threefold. Firstly, in the form of Empire organization, towards which we are now working. We could insulate the Empire, if we chose. Secondly, the steadiness of London has an immense effect on the rest of the world, even on Wall Street, and if London stood firm it would tend to support the rest of the world economic structure. Thirdly, what is done in London is also copied elsewhere. Already some continental central banks have the power to purchase securities and issue currency against them, and a very slight adaptation of their present system would suffice to bring them into line. The present distress is not caused by an original condition, but is a cumulative effect. Each fall creates new declines, and the whole system collapses like a pack of cards. Prices fall until no one can make profits,

Britain and
the Empire
could form
a unit.

because no one can buy. No one can buy, because they get no dividends, or less salaries or wages, from the companies that cannot sell at a profit.


The time factor.

The essential element is the time factor. From 1922 to 1923, 365 leading securities on the London Stock Exchange rose from £5500 million to £6337 million ; in 1926, they were worth £6500 million ; by 1928, they were approximately worth £6900 million, and, by 1929, £7200 million. In 1930 they fell again to £6760 million, and, in May 1931, to £6000 million. Now, if one takes a 3 per cent. simple annual increase from £5500 million in 1922, for ten years to 1932, the amount is £1650 million, which, added to the original £5500 million, makes £7150 million, or within £50 million of the 1929 valuation. In other words, the market had anticipated three years ahead. Anyone who was able to wait a few years would in time see those figures realized again. We are now back below the 1923 valuation, which is obviously absurd. The nation's reserves—that is, the reserves of the individuals who compose the nation, especially of those who are most enterprising and energetic—have been enormously impaired. The nation's purchasing power has been enormously diminished, but we are still an immensely rich country, if only we had the courage to use our wealth.

Mobilize national resources.

My proposal for the Bank of England Discount Corporation means that we should collectively, through our Government and central banking institution, use that vast wealth, and one other factor—the power of the nation to wait. We can prevent these disastrous occurrences, with their terrible

penalty of heart-breaking unemployment for up to 3,000,000 of our fellow-citizens and the impairment of the lives of the whole generation in every direction and activity. The principal lesson of this crash has been that, in spite of all the violence of the disturbance, it is small proportions either of currency, or credit, or commodities, or securities, or production that produce the trouble. The rising costs of a modern factory when production diminishes are a big factor in the modern economic system which is constantly overlooked by economic writers. We are embarked upon an industrial age, and we must alter our banking and economic system to suit the necessities of industry.



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CHAPTER III

NATIONAL AND INTERNATIONAL MONEY

I

FOREIGN EXCHANGE

National
wealth and
national
treasure.

THE first step to the comprehension of this subject is to realize that the proportion of national wealth which can be transferred from one country to another is very limited, and that international exchange has to provide for the movement to and fro of merchandise and of capital. It is also axiomatic, as I pointed out in Chapter I., that no country or group of countries can get very much richer than its or their neighbours.

To provide the money to represent the movement of imports and exports is very simple. Seventy per cent. or more is simply the setting off on paper, through the bank ledgers, of one debt against another. The balance, which is the adverse or favourable balance of trade, has to be satisfied in goods or treasure. In the past, gold has been the international medium, as it were, the legal tender for debts up to any amount, among nations. There is now not enough gold to go around. England is a rich and prosperous country. If the amount of gold was unlimited, her Government could borrow on her

credit enough money to buy enough gold to pay America, and it would not even be a large operation. This may seem an extravagant assertion, but that it is not so will be realized if we consider the imaginary case of a man earning, say, £500 a year who owes a creditor £50. If, we will say, in the community in which he lives aluminium saucepans are by custom the ultimate medium for the settlement of debts, and his credit is good with those who stock aluminium saucepans, and further, there are adequate accessible stocks of these utensils, he has only to pledge his credit with the holders of the stocks to pay off the inconvenient creditor by dumping on him more saucepans than the latter could use in a lifetime.

We owe the U.S.A. about £1000 million. We owe each other internally about £6500 million. Our total property we estimate at some £80,000 million. But there is not the gold to be bought, so we cannot do it. That is, in effect, the international gold position about which so much is written.

It is interesting, however, to note that it is estimated that there is not less than £500 million of gold in India, and that that country owes us £387 million, made up as follows :

| | |
|--|--------------|
| | £ |
| Loans | 315,920,000 |
| Contributions to British War | 16,720,000 |
| Reversionary Annuities | 50,320,000 |
| Bank of India Loan | 4,050,000 |
| Miscellaneous | 750,000 |
| | <hr/> |
| | £387,760,000 |

and the greater part of which falls due up to and about the middle of the present century. Of course,

the £500 million is in private hands, the hoards and stores of 350,000,000 of the population of that peninsula.

There is also the gold in the South African mines. With a little ingenuity we could purchase their output for fifty years in British Government bonds and earmark it for the U.S.A. But it would do the recipients no good.

Gold earns no interest when it is in bank vaults, and really, except to simplify the calculations of international bankers, its merit as a medium of national exchange is not very great. If it were plentiful, and if a small increase of price called forth great quantities, then it would be useful. But in 1932, we have seen the absurd spectacle of the British people cashing in their coin and ornaments at about 27s. paper per sovereign, when the gold theorists hold that the crash three years earlier in 1929 was due to gold shortage.

Effective
action always
delayed until
too late.

It is another example of that international sport which has become so immensely popular with the world's rulers of late—the sport of shutting the stable door after the horse has left. Over and over again we see the steps taken (*vide* the Bank currency measures taken by the U.S.A. in January and February 1932) which might have prevented disaster, not only long after disaster has occurred, but when the position has become so demoralized that such steps are either no longer effective or have only half their effect. If gold was wanted in 1929 why not bid for it then and save the Gold Standard, the loss of which the Bank of England and the Treasury quite wrongly consider to be a disaster. If a determined campaign to call in gold had been made

earlier, I do not doubt that equally satisfactory results could have been produced by offering anything over 21s. in paper per sovereign. The consequent price fall would have been violent and dramatic but no worse than the prolonged decline we are now experiencing.

Mr. Albert Wiggin, the distinguished head of the great Chase National Bank, stated: "The present level of values and business is depressed by fear of the unknown far below the level justified by facts, and both values and business are capable of substantial revival with a mere change of emotional attitude" (*Times*, 11/1/32). In August 1931, I wrote in *Why the Crisis?*: "... Modern financial structure is based on credit, and, if a depression is allowed to develop sufficiently, mankind will refuse to react to normal stimuli and the whole credit structure will collapse. . . ." The Hoover moratorium was too late; England going off the Gold Standard was too late. If the U.S. Banking Laws had been passed in 1930 instead of in 1932, 50 per cent. of the disaster could have been averted at a quarter of the cost. The world seems to have no great men to handle its affairs, but only men who are swept away by the tide of events.

Up to a point, it is true that the crash of 1929 was due to maldistribution of gold. The large capital movements of the period 1927-29 naturally disturbed the world gold position. To be able to settle world movements of the size of reparations far greater quantities of gold or movable treasure would have to exist. There is only a limited amount of the metal, even after many centuries, in the hands of all countries, and, of course, it has become largely

impossible in a world of tariffs and trade restrictions for the country which has payments to make to obtain fresh gold in exchange for their goods or services, which nobody wants. It is not a question of the ability or willingness to provide goods. In the case of Germany, for instance, she is well enough equipped industrially to provide great quantities. The trouble is, nobody wants them. But there was trouble coming in 1929 quite apart from the gold position.

World
instability
in 1929.

The industrial position was unstable ; the world was trying to live a little beyond its means, buying more than it could afford. The American banks were trying to deal with the payments that Europe was making to the U.S.A., by lending money to Germany, the principal source of those payments, and when the American banks required the money to meet their own emergencies it was, of course, impossible to create suddenly out of nowhere, at a moment's notice, either in the form of gold or other goods, that which had, up till then, merely existed on paper; the payments from Europe to the U.S.A. being set off by the loans from the U.S.A. to Europe. No one but an imbecile can ever have imagined it otherwise. The farce of so-called "short money" (that is, money lent usually by one bank to another and repayable at sight, or in a very short time) could only exist, because, as usual, nobody knew what the total amounts were. Each thought he would be able to get his own bit back, and, after all, the Germans paid a high rate of interest. Of course, the high money rate of Wall Street also drew money there from all over the world, adding to the disturbance of a security inflation by creating cash short-

ages in other countries. The whole of these transactions merely existed on "paper," and represented no true facts at all. The people of England could not, in reality, lend large sums to Wall Street. They could lend paper. The quantity of gold behind the paper was, in any case, infinitesimal, and everybody knew that not more than a small quantity of that would be allowed to be shipped abroad. In theory, of course, the pound sterling was backed by gold. In fact, nearly all the money lent from abroad on Wall Street was a pure paper transaction which represented a travesty of the true facts of civilized international existence.

That this could come about is due to the fact that Modern currency, as it exists in the world to-day, is on a ^{international money a} thoroughly unsound basis. It is quite probable that ^{paper fiction.} a great proportion of the sums lent on Wall Street were lent through London. Europeans obtained sterling credits through British banks and lent the sterling in the U.S.A. Let us trace this transaction for a moment. Let us suppose a German had a balance in marks at a German bank, of the sterling equivalent of £10,000. The German exchange is stable. He instructs his German bankers to obtain a credit of £10,000 sterling. This is lent in New York eventually as dollars to someone who borrows it against U.S. Steel Common Shares. That is, a man has bought a share of the profits of an American steel plant on a credit based upon the industrial prosperity of Germany, with the industrial prosperity of England as a further doubtful link in the chain. The old pack of cards. Under any but normal conditions (that is, when the amount of the balances between foreign countries does not greatly exceed

their eventual exchange of goods) it is utterly impossible for this credit ever to exist in the U.S. or in London, except on paper. Neither country wants the goods of Germany, and neither England nor Germany possesses enough treasure to pay more than a small quantity of the paper that they have outstanding. It follows that no country should allow the existence of exportable paper obligations that cannot be fulfilled. To permit their existence, as the present system does, is to build a house of cards that must go on higher and higher until it falls of its own inherent instability. In other words, it is impossible to sustain top-heavy international currencies for the convenience of international financiers.

International
Finance and
Free Trade.

It is interesting to notice in passing that this type of transaction throws into very clear relief the reason for the Free Trade views of the City of London. Great Britain had become the premier manufacturing country of the world, due to the proximity of her iron, coal and seaboard, while limestone, salt and other important raw materials all lay close together—a vital point in the early days of land transportation before railways were general or efficient.

As a result she exported manufactured goods and coal, receiving in return the goods of every other country ; again the primitive conditions of land transportation and the shortness of her own inland hauls, compared with the inland distances of other countries, immensely favoured her development and brought her short insular seaboard into communication with the coastal cities of the whole world. She was free from competition in the serious industrial lines, owing to her immense freight advantage, and brought back in payment the goods of every other

country. She became immensely rich and financed the world, receiving a surplus of goods in annual tribute. The war stimulated a natural change that was already gathering momentum in 1900. The rest of Europe, especially Germany, was becoming industrialized. Cheap railroad transportation was already diminishing the natural seaboard advantage of Great Britain. The war caused a rapid advance in the industrialization of Europe and the U.S.A. Cheap road transportation and foreign Government subsidies to their shipping lines further diminished our geographical advantage. The nations of the world protected their infant industries as we originally protected our textile and other early industries. Science began to enable national units to become more self-supporting and destroyed further natural advantages. For example, since the war a system has been perfected of artificially reproducing the damp Lancashire atmosphere which is essential to the manufacture of cotton goods.

All this tended drastically to curtail the expansion of our foreign trade. The financial implications were equally serious. As long as England was a Free Trade country, she was prepared to receive the goods of any country. Therefore it was safe to send money to England (or alternatively to buy sterling), as she would receive payment in goods.

In theory this, coupled with the vast wealth of the nation, conduced to make England the banking centre of the world. But with altered industrial conditions this also had to be modified. International money passed in the City of London without the passage of goods. The shadow remained—on paper—the substance was gone. Further, if you

received unlimited goods from abroad (especially if exported at marginal costs, or under freight or other forms of subsidy) your own population must be rendered idle, poverty-stricken and insubordinate. Yet England needs political stability to be a World Banking Centre. Finally, the prosperity of the City of London depends fundamentally on the prosperity of *British* industry and the handling of the profits (not the losses) of the nation, so the City, in recent years, changed its views.

The City of London does not do this easily, nor would any who wishes it well desire it to be otherwise. Its deliberate caution and conservatism is a natural attribute of its stability. Like an elephant crossing a bridge, it tests every step first. In these questions of financial organization, it is necessary to show that the path proposed to be pursued is one that has already been explored and which is inherently safer than the one used at present.

Quantita-
tively minor
movements
create major
disturbances.

Science has recently discovered the vast importance of small impurities, trifling quantitatively in proportion to the whole, in the constitution of materials and in chemical reactions. This phenomenon is also observable in monetary science. The proportion of the whole wealth of a country which it is attempted to transfer, even in the most abnormal capital movements, is small. The amount of a currency so involved in proportion to the whole is also small. But it is great enough, under the present system, so to disturb the monetary system of a country, and so materially to effect its wealth on paper, as to produce unwarranted disaster.

After all, when huge slumps occur, and security prices collapse, those securities represent the

same factories with the same potentialities ; the same capacities, the same competent technical and commercial managements supplying the same markets as before. It is not they who have changed, but the monetary system which has become disorganized.

Now what I propose is merely logically based upon this observation. If it is possible to separate the monetary system into two parts ; to show that one part is inherently stable and that the other is inherently unstable ; and then further to show successfully what steps can be taken, what proper efforts employed to support the stability of the unstable part, which cannot be successfully applied to the whole, I shall have succeeded in my object.

To achieve this we must suppose our currency to be divided into two parts : domestic and export. The first will be used only for internal purposes ; the second for foreign exchange. The first I conceive to be based, as I said in the previous chapter, on the taxable capacity of the nation—the fact that it is by statute legal tender for any debt in the country, and in common use by habit. Its issue to be limited only by the natural demand for it. It will never, therefore, be inflated, except by hoarding. No one is likely to hoard such a currency under a banking system such as I set out in the last chapter. People only hoard things they are afraid will become unobtainable. This is not a quality that can apply to such a currency. If hoarding did occur, it could be safely left to cure itself. The banks would be able to pay out such sums of cash, without being themselves in the least degree affected, that it would soon cease. As I pointed out in the last chapter,

Double.
currency.
Domestic :
the
Sovereign.

the liquidity of the banking system would be permanently established. No run could occur. The banks' power of making loans would not depend so much upon their deposits and the ideas of the Bank of England, as upon the collateral security of the borrower. Therefore, such a currency is inherently stable. It will not be caused to fluctuate by unusual demands or artificial action. It will merely serve as the pages of the nation's passbook, in a convenient form, for the transference of credit balances from one citizen to another. Its relation to price we shall deal with later on.

Double
currency.
Export :
the Pound
Sterling.

Now, as regards export currency. For the purpose of nomenclature I will call the domestic pound the "Sovereign," and the export pound the "Pound Sterling." This has quite different functions to pursue. Its business is to settle unfavourable trade balances, the payment of the principal and interest of foreign debt, and to satisfy withdrawal of capital from the country.

It is the natural medium for exchange into foreign currencies. It would, of course, be possible to exchange "Sovereigns" for foreign currencies ; also boots, peanuts and steel bars. Any exchange can be made. But if every obstacle were scientifically placed in the way of exchanging the "Sovereigns" for foreign currencies, and there were no motive and no *profit* in the transaction, the amount that would be done is not worth considering. We have all seen in recent months how deadly effective Treasury restrictions on Foreign Exchange transactions can be when carried out through the banks.

Now the adverse balance of trade of the United Kingdom in the year 1931, which was quite

exceptional, and can be safely taken as a most extreme case, was estimated at £100 million. So exceptional was this occurrence, that the Bank of England was forced to suspend gold payments and to appeal to Parliament for indemnity and the suspension of the Bank Act. It further led to the complete reversal of the Free Trade policy of the country established for eighty years.

We can, therefore, be safe in assuming that if it were decided to make our foreign exchange currency or "Pound Sterling" a sight draft for gold, not more than £100 million would be taken as a result of normal trading activity in any one year. There are, however, two other contingencies to allow for. One is the withdrawal of capital, either British or foreign, invested in the United Kingdom. The other is the continuance of an unpreventable adverse balance for more than a year.

Now the latter contingency is not very serious. We have seen that drastic steps can be taken to correct an adverse balance by increasing import duties to a point when only the minimum of foreign goods are purchased in this country. It would, therefore, be quite safe to rely upon £100 million of gold (while world trade is on this basis, the amount would have to increase by at least 3 per cent. per annum) in order to settle any adverse balance that might exist against this country when all trading operations have been cancelled one against the other. If this proved inadequate the position would be so serious that the country would probably be ruined anyway under any system.

In order to prevent sudden demands, I think it would be a wise provision to adopt the novel

expedient of making the "Pound Sterling" not a sight draft for gold, but a three months' draft for gold. The world would very soon be used to the notion, and the high reputation of the Bank of England and the British people would easily support the change.

There is one other contingency to be dealt with, and that is the repayment of our debt to America in gold. I feel certain that cannot be done. Therefore, I shall ignore this contingency for the moment and deal with a proposal for other means of settlement later on in this chapter.

We have therefore to consider the next difficulty—the withdrawal of capital. Of course, that operation works smoothly enough as long as there are plenty of undischarged foreign balances available. But when the withdrawal exceeds that amount the drain on "Pound Sterling," and therefore gold, would begin.

Now it is not possible to withdraw more than a limited amount of capital from any country. A country's capital is its fixed assets, land, developments, towns, roads, mines, factories, etc. etc., plus its stocks of commodities and treasure. Only the last two can be withdrawn. It rarely pays, in modern times, to dismantle machinery and ship it abroad. Therefore, it is clear that no rational system can exist that presupposes the withdrawal of unlimited capital.

The difficulty is one of separation. Money existing in the form of securities, title-deeds, agreements to buy or sell or pay, banks' credits, or what not, can all in theory be turned into legal currency, exchanged for foreign currency, and made available in some other part of the world. But, in fact,

wealth cannot. The bonds of the city of Manchester can be sold for pound notes, and these converted into francs and sent to France, where their owner may spend them. But the city of Manchester cannot be moved. It is only because some other British citizen is prepared to take the place of the one who is selling that the transaction can be carried out.

Now, if a large number of citizens or foreign investors try to sell at once and convert into foreign currencies, they can smash the financial machine of the country. Prices of all securities, etc., in England will go down through the excess of sellers over buyers, and as soon as the gold reserve has been drawn off, the currency will go down for the same reason. This is the automatic way in which the preceding economic fact that Manchester, etc., cannot be moved, asserts itself. It is the usual jungle law of crude economics—the machine must be smashed before anything can be done, or even the facts of the situation accurately ascertained.

As soon as the machine is smashed, restrictions on the export of capital are at once put into operation by the Treasury. The usual sport of the stable door variety. Had the restrictions been put into force before, the desperate situation (that is, the departure of the gold) need never have occurred.

Now, surely the sensible thing to do is to try and arrange a system based on the knowledge that only a certain quantity of the nation's wealth is exportable. Let there be, say, £150 million to settle trading balances. Then there should be a fixed amount for the export of capital—let us say another £150 million. Although it is extremely hard to get figures to justify that amount, I believe it is

adequate. The amount which the Bank of England borrowed in order to try to save the Gold Standard in 1931 was £130 million. The Treasury has received powers from Parliament to borrow a further £150 million since the £130 million was repaid in the early part of 1932. The Treasury will use this to support or to depress the price of the notes issued by the Bank of England, an extremely clumsy and roundabout fashion of controlling foreign exchange speculation.

The original £130 million was not adequate, because a panic had started. If we had £150 million and no more, the Treasury restrictions which were afterwards imposed would have to be applied when we had allowed all the gold to go that we were prepared to lose. The figures and calculations given above of £150 million against capital movements—that is, both withdrawals of capital and foreign loans—and £150 million for trade balances, amount in all to £300 million. Now in 1929 the imports into this country approximated to £1200 million, so that £300 million of foreign exchange currency represents one quarter of the total. One must conceive a certain lag in the turnover and the set-off of incoming and outgoing payments for export and import, but it is inconceivable that there should be an adverse trade balance, owing to these considerations, of more than £100 million in one quarter, or that capital withdrawal, including foreign loans (the highest recorded figure for one quarter is £56 million, in the first quarter of 1929), should exceed a further £100 million, which still leaves £100 million in reserve. Further, the call for gold is at three months' notice, so that ample time would

remain to set things to rights and to take steps to improve the position, by preventing imports and prohibiting the export of capital. There would be a strong, if not violent, tendency in this direction from the rapid rise of "Pound Sterling" in relation to the "Sovereign" if there were such a large demand for it. The price of the "Sovereign" would rapidly check imports and tend to diminish the export of capital by making foreign issues too expensive for the ordinary British citizen to indulge in.

This rise would also check any tendency to hoarding the "Pound Sterling" notes. They should not, in any case, be issued from the Bank of England in lots of less than £10,000, and then only to certain accredited banking institutions. I believe, in fact, that no note of under £1000 should be printed. By this means, banks would have to "set off" incoming foreign currencies, and any hoarding, foreign or British, that took place would be in large sums and fairly easily traceable. In fact, the position would be as with gold to-day, when, based on the experience of the past decade, we have found domestic hoarding does not take place.

Foreign hoarding would be extremely difficult, if not impossible. For suppose a foreigner desires to obtain and hoard £50,000 worth of "Pound Sterling" bills and to exchange them for gold at three months after presentation and demand, he has to pay for them in foreign currency at gold rate of exchange. The Bank of England has ample time to collect gold from other countries in return for this currency, *i.e.* to buy forward against its fixed contract to deliver gold to the demander, with the foreign currency he must have paid in and which must come

into their hands as set-off balances. Of course, in practice, to-day 80 per cent. of the transactions would take place on paper in the ledgers of banks, and I do not suppose that there would ever be more than 100 out of the 300 millions in circulation. The British tourist would have only one difficulty—that is, he would have to supply himself with plenty of foreign currency before he went abroad. Not a great hardship.

We, therefore, arrive at a point where we visualize £300 million of gold in the Bank of England, against which it has issued a similar amount of three months' drafts or notes. There is nothing in this idea that is really new, because there are at present some £2400 million of monetary units circulating in this country and convertible when we are on a gold standard into sight drafts for gold, even if these are limited in practical fact to sight drafts in units of £10,000. Such a condition when you have only some £150 million of gold in the vaults, is an admission that you cannot pay everyone at once anyway, but that you believe you can pay as many as will claim payment at any given time. Therefore, Bank of England notes, when on the Gold Standard, were not truly sight drafts. If anyone had bought them all up and presented them at once, the Bank would have had to close its doors. The Bank of England note was based on credit—the knowledge that no one could buy them all up (because it would inflate the price to a fantastic level !), and the belief and hope that too many people would not ask for payment at once. Naturally when the crisis came that is just what they did.

Surely it would be safer and saner to issue three

months' sight drafts for the amount you have actually got. If the demands become too severe—that is, that your notes are returned to you and your gold taken away—you put restrictive regulations into operation with increasing severity ; the first restrictions when your gold had gone from £300 million to £200 million ; the next at £150 million. At £100 million the restrictions should be so severe that the whole position is tightly controlled, the export of money forbidden or made impossible, as at the end of 1931 and early 1932, unless in payment of a foreign debt, evidence of which must be produced. No person should be allowed to leave the country with more than a limited amount of currency. The import of all unnecessary material should be prohibited, and so on. All of which methods are well known in modern currency management and are eventually bound to be used if a really severe crisis is permitted to develop.

None of these restrictions would create a violent fall in prices. Of course, as the “ Sterling ” notes were exchanged for gold and went out of circulation, their price would rise relative to “ Sovereigns ” and foreign currencies. As the nation's purchases would be made in this currency, purchases in foreign countries would be cheaper ; domestic prices in “ Sovereigns ” would tend to rise, as they would in similar circumstances to-day, but there would be no reason for collapse. There would be an automatic restriction of imports from the fact that British citizens would have to give more “ Sovereigns ” to obtain “ Pounds Sterling.” All this is the normal manifestation of the demand for gold. But under the system I propose it would, firstly, be more apparent at an earlier date ; secondly,

The stability of internal prices.

cause less dislocation ; thirdly, owing to the three months' delay, *there would be time to take steps to meet the position.*

The
operation
of double
currency
in other
countries.

This dual currency system has often been discussed in different forms. It has, in fact, been in existence in most European countries since the war and worked perfectly smoothly. There was a time when Germany had both a paper mark and a gold mark. France had paper currencies based on the local communes, and having no foreign exchange value, with which the poorer people settled their daily accounts, at the same time as the ordinary franc. England had Treasury notes issued by the British Government, and Bank of England notes. Russia had two currencies for a time.

The observable facts of two paper currencies are these. Provided that the domestic currency is issued only in small denominations it is not likely to be exported in any quantity. Firstly, because of common knowledge that it has no gold basis ; secondly, because it is highly inconvenient. But what would at once settle the matter would be if no British bank would accept "Sovereign" credits from abroad. This would mean that no foreign bank would change "Sovereigns," and they would immediately cease to have any international circulation. In other words, if Mr. A. went over to Paris with 100,000 "Sovereigns" in his trunk and deposited them at the Bank of France, then changed them into francs at the prevailing rate of exchange to sterling and francs, no British bank would accept the "Sovereigns" from the Bank of France. That institution would have to buy "Pounds Sterling" before it could get back its francs.

Also, no British bank would exchange "Sovereigns" for foreign currency or a cheque drawn in "Sovereigns," so that all foreign exchange transactions would have to be carried out in "Pounds Sterling." If the tendency were towards a demand for gold, then the "Pound Sterling" would appreciate in value against the "Sovereign," and an automatic check on foreign dealings would occur long before there was any question of danger, let alone disaster. In any case only a small proportion of the total currency would be directly affected. The present total of monetary units in circulation is about £2400 million, so that with a foreign exchange issue of £300 million only $12\frac{1}{2}$ per cent. of the total would be directly affected.

There is the question of foreign loans, for which the City has been famous for many years, and which have without question contributed in the past to the prosperity of British industry. These should be self-balancing. When we lend, we either lend to a foreigner, who buys from us, or who buys from those who buy from us, or we lend the surplus foreign balances, arising from a favourable balance of trade, or we must lend treasure. The latter circumstance is most undesirable and can never be contemplated on a large scale. Foreign lending.

Therefore the rise in "Pound Sterling," which would automatically check foreign lending, would be an advantage. It is no advantage either to the country or to industry for our banking institutions or our financial system to carry foreign balances on short terms and lend them abroad.

True, there is a small commission accruing to financial houses and banks from the transaction, but

it creates a condition of the gravest instability in the whole financial system, and the country, as such, has not the slightest need to make any provision for such transactions, and every reason to take steps to prevent them if they are inconvenient.

If we examine the facts relating to foreign lending by Great Britain since 1924, the true proportion of its position in the financial scheme is thrown into sharp relief. The following table shows in Column A the amount in millions of pounds, raised by public issue for foreign lending year by year. Column B shows the amount accruing to the City of London, assuming that the cost of such capital issues to the borrowers for commission, brokerage, overriding, printing and advertising, etc., averaged 6 per cent. of the gross. It also serves as a rough guide to the annual income received in these islands, assuming that they yielded an average of 6 per cent. I should think the average would be round about 6 per cent., but I have not thought it of sufficient importance to check back the great multitude of figures necessary to ascertain the facts. Suffice it that it is certainly between 5 and 7 per cent.

NEW CAPITAL ISSUES FOR ABROAD

(Published by the Royal Economic Society)

| | | | | | | | | Millions. | |
|--------------|---|---|---|---|---|---|---|---------------|--------------|
| | | | | | | | | A | B |
| 1924 | . | . | . | . | . | . | . | £11.2 | .67 |
| 1925 | . | . | . | . | . | . | . | 29.3 | 1.76 |
| 1926 | . | . | . | . | . | . | . | 37.5 | 2.25 |
| 1927 | . | . | . | . | . | . | . | 42.8 | 2.57 |
| 1928 | . | . | . | . | . | . | . | 86.5 | 5.19 |
| 1929 | . | . | . | . | . | . | . | 94.1 | 5.65 |
| 1930 | . | . | . | . | . | . | . | 108.7 | 6.52 |
| 1931 | . | . | . | . | . | . | . | 45.8 | 2.75 |
| (up to July) | | | | | | | | <u>£455.9</u> | <u>27.36</u> |

Now it is at once observable that in 1924 the loans made by this country abroad were just over 10 per cent. of those made in 1930, just prior to our going off the Gold Standard. In 1924 we were just about to go on to gold, which we did in 1925. It is hardly necessary to point out that this means that in 1924 our financial authorities felt we were in a very strong position. In 1930 it was obvious to the least imaginative that the world position was very, very serious. Yet in the strong year we lent £11 millions and in the weak year £108 millions, and up to July 1931, £45 million pounds. Why? It is common knowledge that in 1923-24 the Bank of England most severely discountenanced public issues for foreign lending because they wanted to get back to gold. It seems incredible to me that if they could prevent public issues in 1924 they did not stop them in 1930-31 when we were going straight off their beloved Gold Standard. The total amount they borrowed from France and the U.S.A. to try and enable the Bank to meet its statutory obligations was £130 millions, yet in 1930-31 this country *lent* more than £154 millions abroad!!

This makes one wonder a good deal about the proverbial wisdom of our financial governors, in whom we place the power, unchecked, of raising and lowering the Bank Rate and performing open market operations that can destroy the prosperity of 45 millions of human souls. But there is a further and far worse accusation against the Bank policy. 1929-30 was a period of definite inflation of world values. The Bank policy was purely deflationary, which means they did not agree with the world outlook and were trying to correct it. That means that

our investments abroad were being made at a bad time. The security offered was over-valued and the investments were likely to cause losses, which indeed they have done. Also the times were competitive, as the U.S.A. was lending anxiously and there was always competition between London and New York for rates on loans.

In 1923-24 the position was very different. U.S.A. had not so seriously entered the market as a competitor in this field. We stood alone as the traditional foreign lenders of the world. But most important of all, transcending every other question, was the fact that Germany and Central Europe—our principal industrial competitors—were crying out for money on any terms. They came to this country offering as security, patents and processes and industrial knowledge of great value. We could at that time, having in the City of London men with infinite knowledge of Germany and European industry, have financed their bonds convertible into ordinary stock in such a way that not only would vast profits have accrued to this country, but Great Britain might have literally controlled much of its principal industrial competition, and could certainly have improved its position and equipment for meeting the remainder.

To have strangled Germany would have been both brutal and impossible, but with a firm yet gentle hand on its developments, the increase in its plants, the direction of new outlets, and above all to have obtained the benefits of the whole advance of their technical knowledge, would have been within our power. Bold, brilliant and wise finance could have reaped the fruits of victory that England's

manhood, so blindly, so bravely and so honourably strove to win on the field. But no, the politicians failed, and the financial authorities were seriously and feverishly pursuing their national sport. One could hear the stable doors bang one after the other, as the sound of clattering hoofs faded into the distance.

But, above all, these figures demonstrate two points : First, that the Bank has thought fit to prevent foreign lending when it suited its own policy, and therefore the nation is at least entitled to the same privilege. Secondly, that the amount of profit accruing annually to the City by these means is quite insufficient to cause us to continue to lend abroad for that reason. No sane person would stick to a system that can produce losses of upwards of £5000 million to the nation in order that a part of it, and that the part that employs less labour in relation to the capital employed than any other, should make some £3 million a year.

There is also the question of foreign deposits to consider. Foreign balances can exist in the City in other forms than bank deposits. There can be, and have been, large foreign holdings of Government obligations, War Loans, Treasury Bills, etc., and of British industrial and other securities. They are of no advantage to this country. We have plenty of wealth in these islands, and can, if we use our brains, create all the cash and credit necessary for our world-wide interests without the assistance of foreign money, which constitutes a positive and real danger in times of crisis. We can bank for the world in foreign currencies and in "Pounds Sterling." We can hold foreign balances for safe custody in

dollars, francs or marks, but there is no reason why we should keep an "open door" currency against a gold reserve which every foreigner can use and drain at will. The extra profit is not worth the risk of the penalty of crisis which falls on every man, woman and child of the working classes to an utterly unfair extent. The additional profit in the total economy of the State is not sufficient really to affect their well-being when things go right, and they pay a heavy penalty when things go wrong.

II

NATIONAL FINANCE

Cash and
Government
securities.

We must now turn to the next vital aspect of finance and currency, and that is Government expenditure : loans and taxation. These lie at the very root of the currency question, since we have said that the domestic currency is based on the credit or taxable value of the country. Every year the Government collects from individual citizens the revenue necessary for the service of the State and its internal loans (I have excluded external loans for the purpose of this argument) and spends the proceeds, which in Great Britain amount to some £800 million per annum, of which about £300 million is the service of the internal debt. Further to this, there is a sinking fund of some £60 million. Now of the total expenditure, £33 million is for external debt and must be excluded for our purposes, making the figures, say, £270 million and £60 million. When England was on the Gold Standard there was a real and distinct difference between its Government obligations, say War Loan, and

its currency. When we are off the Gold Standard or on the basis of the suggested "Sovereign" domestic currency, that difference, in reality, disappears. Under the previous arrangement there is a long-term demand on the British Government for a unit of Government loan, say £100, repayable at some specified period. It is not specified to be repaid in gold but in legal tender. There is also the appropriate interest, also payable in "coin of the realm," legal tender, whatever it might be. A bank-note, however, was a sight draft on the bank for gold if over £10,000 were taken, this arbitrary restriction being invented to prevent the use of the metal.

At the same time, however, the whole financial structure of the City was based upon Government securities and cash being interchangeable, and at short notice. All the joint-stock banks hold large quantities of British Government loans. If they were unable to turn them into cash at short notice their position would be hopeless, *they would be frozen stiff*. The whole financial system is supposed to be able to be controlled by the open market operations of the Bank of England. If it could not readily buy and sell Government securities for cash, this one vital method of control fails, and the machine, according to orthodox reckoning, is at once out of hand.

Therefore we see at once that it is axiomatic and vital to our financial system, as at present constructed, that British Government obligations and British currency should be readily and freely interchangeable. But since our currency is no longer based on gold, another aspect of the question arises.

A bank-note to-day is, in reality, a sight draft on the British Government (representing the British people) for goods or services *in England*. A Government security is a long-term draft for precisely the same thing. What is the difference? In the security behind them there is none whatever. The only difference is in the minds of men who do not see what has happened and in the fact that on the one the British people have to pay 5 per cent. or some fixed rate, and on the other you can only get the Bank deposit rate. Yet they are interchangeable at very slight price differences. The whole of our financial scheme depends utterly on the interchangeability. They are in practical fact from a capital point of view one and the same thing.

Pay off
Government
loans.

Why not make them one officially? Why not pay off the holders of long-term drafts at interest with sight drafts? The security is the same, and they would have no grievance. They would have to take Bank Rate for their money from the banks, who would lend it at interest, instead of the British Government having to force the taxpayer to disgorge many millions a year. There is no possible object in keeping these loans in this form once our currency has gone off gold.

Of course, it could not all be done at once without causing a grave disturbance in the financial system. The holders of Government obligations receiving cash would not all be content with deposit rate and would want to buy securities. This might cause too rapid a security inflation. But if it were done gradually, say £100 million a quarter, it would have no effect except to create a lively market in British

securities, land, etc., which is what we all want to see. There would be a progressive diminution of taxation. No additional currency would be required. The holder of £100 of Loan would find he had been repaid and that he had £100 at the bank. He would not rush to draw it out in notes. He might spend some of it and so help to get the wheels of trade turning, which is what we all want, and that might give rise to a legitimate demand for an increase in currency.

If we were then working on the dual currency system by the simple means of creating the new "Pound Sterling," there would be no shortage, for, as we saw in the last chapter, the Discount Corporation would discount collateral against currency, and its supply would not be arbitrarily limited but would just amount to what the country required.

Under this system England would see a long period of increasing prosperity and diminishing taxation and unemployment. I cannot see any reason why it could not be simply and easily carried into effect by the setting up of the Bank of England Discount Corporation by Parliament, and the creating of a new "Pound Sterling" currency with a few simple Treasury orders.

The objection that might be raised, that if Government Loans were paid off in this manner it would be impossible for the British Government to borrow again at need, cannot be substantiated. War Loan and all the British Government Loans over 4 per cent. have been such wonderful investments for the last fifteen years that in any case future loans would find plenty of subscribers on the basis of past history. War Loan, for example,

Future
borrowing.

from 1917 has paid 5 per cent. every year with no capital risk, and through the whole period has never had a variation of capital value exceeding 10 per cent. Very few industrial concerns have yielded as much to their shareholders over the same period, and the capital values of the most stable and reliable have varied 60 and 70 per cent. I use the word "yield" here in the strict sense, because at the prices that have been most generally prevailing over the period it has not been possible for the ordinary investor to purchase good industrials to yield him more than 5 to 6 per cent. Of course there have been large capital fluctuations in the bull and bear markets of the period, and the operator and the speculator have had opportunities for capital profit, but I am concerned with the genuine investor rather than with the former type. Under the proposed system, however, public borrowing by the Government would not be necessary. It would be sufficient for Parliament to vote the loan as they have recently done with the £150 million Stabilization Loan, and for the Treasury to deliver a single certificate for the amount voted to the Discount Corporation, and to draw 85 to 90 per cent. of the cash against it. That is very much what happens to-day. If a Government loan is issued, both the public and the big trust and other companies subscribe for it, and the banks agree beforehand to lend freely against it, so that in effect a large proportion of a Government Loan is eventually subscribed on bank loans. One principal difference is, that under the present system this denudes the country of cash and restricts lending powers of the banks.

Under the proposed system it would not, for a ^{Self-financing} shortage of cash or currency would be as much ^{expenditure.} abhorred by such a system as liquid stocks are by the present system, according to Mr. Keynes (see page 101). What matters most is how the Government's money is spent. If the money is spent on constructive and profitable work it is, like all profitable human undertakings, self-financing (see Russian system on pages 197-8). If it is not, it would soon produce undesirable inflation of the "Sovereign" in terms of the "£ Sterling." With this difference, that while the domestic currency would fall—that is, internal prices would rise—we should be insulated from foreign effects and disturbances as long as the "£ Sterling" had its proper backing.

All profitable expenditure is self-financing. The essential property of money is that it represents the stored wealth that has been secured by the efforts of humanity operating on the natural resources at its disposal, and as such is reproductive, bearing interest. It can only bear interest if it is invested in profitable enterprises, otherwise it becomes sterile, with a "Bank Rate" of $\frac{1}{2}$ per cent., or even a charge of $\frac{1}{2}$ per cent. for looking after it.

An expenditure of £10,000 therefore, which earns £600 per annum, will yield 5 per cent. interest and 1 per cent. sinking fund—that is, yield an adequate return on capital and eventually repay the original capital by the time that the physical investment is worn out and valueless. Paper representing the ownership of this property, when readily exchangeable by means of an organized market, is therefore a true form of money, and any currency based on such an expenditure is in principle sounder than a

currency based on gold, always provided that a reasonable modicum of stability can be maintained. If stability cannot be maintained, we should all be logical and hoard as much gold as we can induce the Bank to part with.

Available
sources of
gold.

The main question is how to obtain the gold for the export currency. Now we have already seen the estimate of Indian gold at £500 million, while their debt to us amounts to £340 million. This should prove a fruitful source. India requires many capital goods that we in England can supply : railways, harbours, dams and irrigation schemes, new buildings, hospitals, universities. All these would do India more good than a half-baked parliamentary system, that Europe is fast abandoning and which does not work any too well here.

Surely the Government in India could most properly take paper pounds here, to be spent in England for their purposes, in return for gold. There would be a profit to India with the paper pound being worth 27s. worth of goods in England. England would benefit from the gold. A little courage and imagination would soon solve that problem.

Then we have the South African gold. Very much the same applies in that case. There is a large, undeveloped, sub-continent with a wonderful climate and immense natural wealth. It wants two things—population and capital. It has the one thing we want—gold. There are naturally difficulties—many of them. So there are in crossing the street, but we don't stay on one side of it for ever in spite of that. We get across somehow, taking pretty big risks too, if the urgency of the occasion demands it.

There is also a large quantity of gold in the arts in England. As I write (February 1932), the newspapers report large quantities estimated at already £50 million or £60 million which the public is producing at the enhanced paper rate. The U.S.A. has more than she wants. We might do business there. Depend upon it, if we want the gold we shall get it. But we could never get enough to support the partial gold currency system which was attempted from 1925 to 1931.

I cannot pass on without a short reference to the American Debt. Many people believe that we cannot pay it and ought not to try. That may be true. I am certain we can never transfer the necessary amount of wealth through normal trading and banking channels. It appears to me that there is only one way of transferring large amounts of wealth from one country to another, and that is by the transference of land or treasure. The latter we do not possess and cannot accumulate in sufficient quantities for that purpose. All we can do is to offer to transfer some of our many Pacific, or West Atlantic possessions to the American people. If they do not want to take these, we shall have to let it go at that. I see nothing dishonourable in the proposal, and anyway it is far more honourable than just refusing to pay, which appears the only reasonable alternative. If we never recommenced paying, nothing would happen. America would not make a war, which would cost her several thousand millions to recover £1000 million. Our credit would stand higher, not lower, with the rest of the world. The theory of the ruin of the defaulting nation has been exploded by the practice of the last decade.

Russia, Germany and France have all defaulted and profited by it, and now almost every other debtor country is following suit.

British
financial
policy of
last decade.

It is not my purpose to criticize our financial authorities on their policy for the past decade with any feeling of acrimony or reproach. True, they have had many critics all along, of whom my father was not one of the least vigorous and authoritative.

During recent years the Treasury and the Bank of England have had four major canons of policy. Firstly, the Gold Standard ; secondly, Deflation ; thirdly, Free Trade ; and fourthly, the Demonetization of Silver. The first three have failed lamentably and have caused this country infinite harm. They have created industrial strife and have been at the root of high taxation and unemployment. Mr. R. G. Hawtrey has rightly said that the industrialist and merchant has no control over the factors that cause him his principal profit and losses. No more has the politician any control over the main causes of national taxation and unemployment. They all depend upon our financial dictators under the present system. Meanwhile, the rapid deflationist tendency has caused industrial strife of the worst character, has created internecine strife in the nation at a time when it should have been united. The men who fought in the war have been called upon also to face the horrors of a deflationist peace. The great strike of 1926 lost England millions of pounds' worth of trade, some of it permanently ; the exposure of our industries to unrestricted imports has caused many of them to fall far behind in equipment and technical knowledge and in the competitive strength which a strong balance sheet gives, owing

to their continual impoverishment. But we have it from the lips of the Governor of the Bank of England himself, that until very lately he has not considered it the duty of that institution to concern itself with these matters.

“A year or two ago, we were forced, as I think, to look closely at the position of industry in this country, with which previously we had practically no direct contact, and with which as a Central Bank many persons think that even now we have nothing to do. . . .” (Evidence of Mr. Montague Norman before the Macmillan Committee, 1931.)

Yet the industries of England had been in constant peril from 1919 to 1929, and industry to-day is the life-blood of England. All the banks in the country cannot provide employment for our 46 million population, or provide the taxes to give them the dole or Poor Law relief when they are unemployed. The idea of forcing down the standard of living is not only repugnant and at least very doubtful ethically, but it is unsound from the point of view of economics. In *Why the Crisis?* I wrote on the question :

“We do not want to go back but *forward!* We must organize ourselves to obtain the benefits of our great wealth instead of allowing chaos to ruin us. . . .”

The collapse of the first three points of policy has been observable since August 1931. The country has been forced from the Gold Standard ; rapid deflation has culminated in logical and inevitable industrial ruin ; the country has abandoned Free Trade for Protection. There remains the question of silver. This is a highly controversial topic, upon

which I shall not enter, except to say that for a country such as ours, more interested in the purchasing power of the Far East than any in the world, and responsible for the government of 300 million people in India, to take a lead in demonetizing and forcing on the world's markets the metal which is the basic currency and the principal method of saving of this vast population, seems to me to be an act of folly to which it would be hard to find a parallel in the annals of history. It has been the cause of violent unrest in India (which has been attributed to everything else but this, its basic cause), and has disrupted and impoverished the 400 million of China, which led quite logically to the recent conflagration of the Far East.

For the last decade all Governments powerless on major financial questions.

Governments and ministers have no control over this question. From 1923-31 we had two Chancellors of the Exchequer—Lord Snowden and Mr. Winston Churchill. Neither of them had any first-hand knowledge of either finance or industry. They had not misspent the years of their youth studying currency questions. They were, and I believe would both admit it, almost entirely in the hands of the Treasury officials and the Bank of England on all these—the vital—questions. It does not matter in the least whether you have a penny on beer, or twopence on tea, or sixpence on or off the income-tax. Any clerk can devise all that, and any clear-headed and eloquent speaker can explain it to the House of Commons.

The great fundamental issues—gold, credit policy, silver—these the Chancellor of the Exchequer cannot touch for safety's sake. He must follow an orthodoxy so out of date that it might be

compared with the Catholic orthodoxy that believed in the essential holiness and virtue of torturing and burning upwards of three-quarters of a million victims in two centuries. But this should not, in my view, expose the financial authorities or the bankers of this country to the type of attack to which they have lately been subjected. They have, with an honour and probity that is entitled to the admiration of the nation and the world, carried out their duty as they have conceived it. They have maintained our great financial institution pure and uncorrupt in the face of a world whose daily banking scandals display a very different standard. Mr. Lloyd George's invective, clever and amusing—"The money Barons" . . . "the city penguins"—is uncalled for and unjustified. The Socialist "Bankers' ramp" is non-existent.

No thought of personal gain or profit comes into these considerations. Millions upon millions of the nation's money are handled daily by men who receive but a very modest remuneration and retire upon small pensions. Here is no growing rich through the small seepage of large sums as in other countries. The only question that can be raised is the rightness or the wrongness of the financial system and the economic theory by which we are governed.

It is not even the sole duty of the Treasury officials or the bankers to settle this. It is a national question; above all, the industrialist, and every private citizen, has a duty to study and comprehend these questions. They are not so difficult. Already the country is beginning to understand them. True, Parliament for many years has been about the worst body in the country in which to attempt a serious discussion on

these topics. The ejection of a Clydesider, a row with the Speaker, amusing fireworks of any description will always draw a larger crowd. Debates on unemployment are proverbially worse attended by all parties than any other—and debates, except on agriculture, our premier industry, are usually restricted by the rules of the House to relatively unimportant aspects of the question ; but all this must wait for a later chapter.

Present
system
obsolete : a
new system
must be
devised.

What I wish to maintain is the impossibility of the present system, which vests an unchecked control in the hands of a few men, and which is based upon the tradition and practice of the past instead of the facts of the present and the future.

The system which I have outlined of a double currency and a credit system checked only by the wealth of the nation ; the formation of a National Corporation which will rationalize and mobilize the great wealth and power of England, is, I believe, worthy of examination and of trial. In any case it can certainly be no worse than the past and present systems, and has certain very definite advantages. In this way we may escape from this fantastic nightmare of the starvation and privation of millions of our fellow-citizens, and the increasing debility of our national economy, in the presence of the greatest wealth and the greatest power for the betterment of mankind which history has yet witnessed.

CHAPTER IV

STOCKS—THEIR VALUE AND THEIR EFFECTS

So far we have chiefly examined the monetary causes and effects of instability; but there is another cause, the effects of which are of such an important character that they deserve a chapter to themselves. Stocks of commodities have a determining effect on the course of events, far beyond their true importance, because they touch the economic machine at its most vital and sensitive point—the market.

In the long-run the world cannot be supplied with any commodity at a price lower than that which will show a reasonable return to the producer. It is impossible to conceive of any manufacturer, whether a private individual or company or the State itself, indefinitely continuing a process which loses money year by year. But there are two conditions in which the world can obtain goods below cost for a time. Firstly—in the case of severe competition—a fight, when prices may for a time be forced below cost because one party hopes to recoup itself out of the greater profit which it can obtain, either from cheaper cost with larger volume, by winning a larger market in the fight; or from being in a position to raise prices higher after the fight. One other condition is very common in the post-war industrial world, and that is the dumping of goods below domestic

Price ultimately determined by cost of production.

cost of production into export markets when the manufacturer has a good price in a protected home market and can with additional volume lower his costs or, when he desires to, hold a particular export market against competition. But in these latter cases the world at large does not get the commodity below cost, only certain parts of it. The transaction on the whole is yielding a profit and therefore does not fall strictly within the scope of the precept.

The second great cause of selling below cost is the liquidation of stocks either through depression or some other cause. In this case commodities can be sold for long periods at no relation whatever to cost and at prices that are utterly uneconomic, yielding not only no profit to the producer but not even enough to enable him to replace the wear and tear on his capital plant. If in these circumstances all manufacturers agreed to close their plants for a time, and all primary producers agreed to cease production, and the world took an organized holiday, it would not much matter that production had apparently outrun consumption.

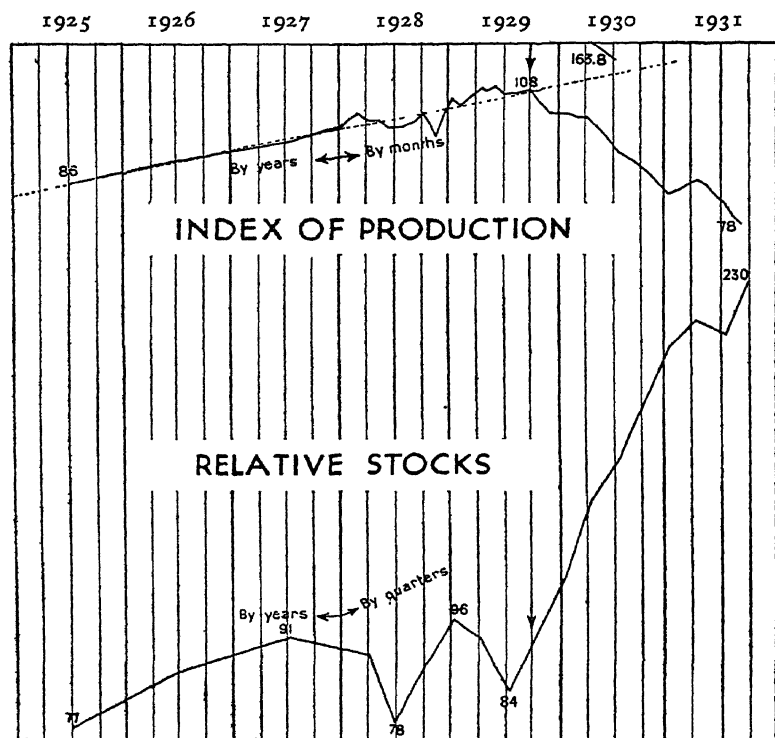
But, owing to the competitive nature of industry, this does not occur except in isolated cases, where well-managed and powerful cartels exist. What does occur is that producers continue to produce, stocks accumulate, and prices are further and further depressed, and instead of a sharp and decisive result, a long-drawn anæmia occurs which has nothing but undesirable effects. As long as these stocks overhang the market this tendency will supervene. No one can tell how long it will last. It is a well-known fact that price changes in any market are

based upon sensitive considerations in normal times. The alteration in the price of 5 or 10 per cent. of the available quantity of a product will change the price for the balance, at any rate for a time. In the long-run, of course, the market will return to the level dictated by the law of supply and demand, but for short intervals a slight visible excess or shortage of a commodity may have drastic temporary price effects.

In times of disturbance, however, the results are more far-reaching. Stocks must be calculated by two factors, those of quantity and time, which together give rate of consumption. So that while the physical quantity of any given commodity may be reduced, the visible supply in terms of current consumption may daily increase. A reference to the chart on page 100 shows dramatically how this occurs, and it is unnecessary to stress the appalling industrial disorganization that it creates. One can there observe that while the index of production has been declining since June 1929, stocks of commodities taken as a percentage of production have increased from some 90 per cent. to 230 per cent. of annual production.

But I think a better industrial illustration is the percentage of stocks of commodities relative to normal annual consumption, taking the average of seven years of production as the normal consumption. It stands to reason that neither over- nor under-production will dominate over a period as long as seven years ; producers would either have increased or curtailed their output within the time ; also had either of these tendencies prevailed for so long a period there would either be a very large or a very low stock at the end of the period, which would serve

as a warning to examine the average in greater detail. Meanwhile it so happens that the period from 1922-28 does not include any very dramatic years ; 1921 and 1929 are excluded, and it gives a fairly true normal picture of the last decade.



Part of chart illustrating Sir Henry Strakoschs' article. (See p. 31.)

The figures (in the table, page 19) show the stocks of basic commodities existing at the end of 1931 to be on the whole between three to six months of the annual average consumption of the last decade. This seems an inadequate reason, as I pointed out in *Why the Crisis?*, for ruining the world.

For the first time in history there is an abundant supply of all essential commodities. These stocks are real wealth to mankind. Gold is not. You cannot eat it, or live in it ; it will not make you warm, and in any case now you are not allowed to have it (at any rate from the banks). Gold is the only commodity that matters of which there is a shortage. It is from the practical point of view the most useless of all prime commodities. Yet we are such lunatics that we allow this one shortage to deprive us of the benefits of plenty of all remaining prime commodities.

The present
is the first
period of
abundance.

I feel so strongly that this is a vital point in our present economic organization, that at the risk of being repetitive I shall quote Mr. Keynes' classic analysis of this question :

" In no case can surplus stocks exist alongside of normal production. Recovery—broadly speaking—cannot begin until stocks have been absorbed, with the result that the process of recovery cannot be much facilitated by the existence of stocks.

" The conclusion of this section may be summarized by saying that our present economic system abhors the stock of liquid goods. If such a stock comes into existence, strong forces are immediately brought into play to dissipate it. The effort to get rid of surplus stocks aggravates the slump, and the success of these efforts retards the recovery." (J. M. Keynes' *Treatise on Money*, vol. ii. p. 145.)

The Macmillan Committee reported that it was vital to try to get prices back to normal levels at which industry can work at a profit. How can this

be brought about until you deal with the stock position ?

Depressing
effect of
apparently
surplus
stocks.

As long as these apparently surplus stocks exist, they depress prices. As long as prices are depressed, industry loses money. As long as industry loses money, men will be unemployed, salaries and wages will be reduced, purchasing power curtailed. Budgets will not balance. Plants will stand idle and normal renewals will not take place ; other plants though running will not be kept up to the usual high standard by repair, they will be allowed to run down as near the safety limit as possible, and all repairs postponed until better times in order to try to cut costs to meet present prices. All new work and new construction will cease. And every one of these effects, uneconomic and costly as they are, will only serve to deepen the depression by a multitude of cumulative factors through the continual contraction of purchasing power and the consequent diminution of consumption and further increase of stocks.

The figures for late years show this operation in progress. If for the years 1929, 1930 and 1931 we deduct the physical increases in stocks during each year from the current production figure, we arrive at the current consumption. At the same time, it might be possible to express current increases in stocks in terms of percentages of normal consumption and to indicate variations from the normal annual average for the years 1922-28 (see tables pp. 18 and 19). The actual percentage increase above normal would not be very large. Certainly not so large that, spread over a reasonable period, say three years, it could not be absorbed in normal

consumption without necessitating in most cases more than a 10 per cent. curtailment of production.

In industries where powerful and efficient cartels exist, and where cost differentiations are not great, this is not even a difficult operation ; but until some form of stability exists it is utterly impossible to set about it, because the normal consumption, as the table shows, declines too steeply for any orderly movement to be made to meet it. Meanwhile every industrial factor is contributing to the further decrease of consumption.

Fortunately in England, by adopting a protectionist system, we shall be able to correct much if not all of this tendency. The necessity of manufacturing within the tariff wall will stimulate the erection of new factories, and the absence of imports will stimulate the production of factories already existing. It seems that some special providence has watched the interests of the British Isles to enable them to use this method to correct the deflationist tendency more effectively and earlier than the rest of the world. The result of this will be to place us once more in a predominate industrial position.

Attempts at
correction by
tariffs and
inflation.

Apart from this, other countries, the U.S.A. in particular, are making spasmodic inflationist efforts to stimulate consumption and so turn the sequence of events back again to increasing demand and consumption, rising prices and profits, greater employment, rising wages, etc. etc., as one turns over a pack of cards spread out, half of each card covering the next by moving only the first one : all the others must follow. But many difficulties have yet to be overcome, and the difficulty of stocks will not be the least. One of the principal difficulties

to be overcome is expressed in the ridiculous word "Reflation." This is a new piece of bunkum invented because people will not face the truth, which is that extreme de- or inflation is disastrous to the country upon whom it is practised, and that the violently deflationary policy of our monetary rulers has been just as culpable as the violently inflationary policy of the Germans, and that the net results do not differ very much. It is a question of degree.

Apart from that immediate question it is clear that the present position, so ably defined by Mr. Keynes, is utterly irrational, by virtue of the fact that the movements of stocks are not of sufficient magnitude to warrant so much dislocation.

Control of
over-production
by
money
methods
impossible.

Those who believe that financial control can produce stable prices must be all the more anxious to devise a system whereby the prices which they try to stabilize with gold and currency control cannot be smashed by over-production and accumulation of stocks which their financial control can never prevent. It takes too long to operate. In the modern world, where things move quickly, to try to control production and stock accumulation by the Bank Rate and open market operations (the only method open to the central authority to use) is like a man driving a motor-car at thirty miles an hour and applying a brake that will not begin to act for thirty seconds. He would be a quarter of a mile away before the brake took effect.

It was with these considerations in view that I started in the August of last year to evolve what I then published as the *Cistern Theory of Stocks*. Since then I have had further time for consideration and the examination of figures and also the benefit of

the public reception of the idea. So far, the main theme remains uncontradicted, and much has been published by other writers that conduces to the idea—namely, the hopeless instability of the present system and the necessity for adopting some better means of managing our affairs. Now the great advantage of attempting to make stocks of primary commodities a stabilizing rather than a disorganizing factor in our economic system is not only the elimination of a danger spot, but the fact that only when a commodity is in stock can it be controlled. During the whole process of manufacture, distribution and consumption, once the initial step is taken, it must be seen through till the end, with all the attendant chain of economic circumstances. But while a commodity is in stock it can be used as a balancing factor in the economic system, since it becomes a reserve for civilization against any sudden shortage, and provides a reserve for the manufacturers against any sudden demand.

Of late years the practice of keeping a large surplus of plant above normal past requirements in order to meet sudden demands, instead of keeping large stocks of commodities, has increased because the reduction of cost, which is consequent upon increased output, tends to drive the manufacturers to the creation of large plants, even if part of them may have to stand idle for a time, in the hope of largely increased profit if and when good times come. Such a condition of affairs is also likely to be brought about by the practice of reserving a large proportion of profit in good years : the question always arises, How shall these be invested ? In these troublous times that is always a difficult question.

The causes
and effects of
surplus
productive
capacity.

Most manufacturers prefer to reinvest in their own businesses, and to improve and enlarge their factories. All this tends to create a position where over-production can very easily occur. Once a plant is in existence people want to run it and to keep it running. It becomes a question of humanity to employ men and a question of honour not to shut down, and so, many human influences, in no way connected with economics, are brought into action. If a large reserve of commodities existed so that no sudden demand could occur, this practice of keeping spare plant, and also most of the speculative buying of commodities, would cease.

The use of
stocks of
commodities
as a
stabilizing
factor.

In order to obtain a near approach to this problem and to devise a system which would render Mr. Keynes' dictum no longer true, it is necessary to regard stocks of commodities as an essential protection and insurance for the human race, and to employ means to bring them under control, so that their power of doing harm can be mitigated to the greatest possible extent, and their functions as an assistance to the economic system developed to the highest degree.

It must not be forgotten that stocks of commodities can be an independent cause of inflation as much as securities. If there is an optimistic spirit abroad, and consumption figures, owing to the various causes we have already studied, are all tending to rise, commodity prices will also rise, very often not for any substantial reason, such as a true shortage of the commodity or a real increase in the average cost of production, but simply as a result of speculative buying and general sentiment. The value of the world's gold stock is estimated by Professor Cannan

in the Appendix to his most valuable work, *Modern Currency*, as being £2,283,300,000 sterling in the possession of banks of issue. A study of the tables on pp. 17, 18 and 19 will show that the exchangeable value of the world's gold stock in terms of commodities, its only real value, has altered to a vast extent during the past five years. This is, of course, common knowledge, but both the gold stocks and commodity stocks form a basis of credit, with paper, bank and other forms of money intervening.

At present the world attempts to control the volume of credit through the machinery of paper money, partly representing gold, and this again depends upon foreign credits deposited in banking centres where the latter either need the money for domestic development or take it in order to re-lend at a profit, as in London. This can only be effected if the stock of gold remains stable in terms of the stocks of commodities—which is impossible, as both factors fluctuate wildly, consequently producing instability throughout the machine. If credit and domestic currency were freed from gold as I suggest, and use of the metal were confined to settling foreign balances, for which it is undoubtedly the most convenient and practical medium, credit and domestic currencies would be relieved of the shocks of disturbance, and being infinitely flexible would contract and expand only according to need—that is, there would always be as much of either as was required.

The present permanent instability: causes and remedies.

At present the artificial contraction of credit by the central banks, and the even more severe contraction caused by the forced liquidation of commodities

and securities by other banks for their own protection, destroys values and creates panic. Gold soars in value, everything else crashes. A thoroughly disorganized situation is created which it takes years to put right. Were an organized system of holding stocks to exist, much of this could be prevented.

The theory of
stock control.

To discuss such a system it is first necessary to analyse exactly what we mean by stocks, for they are of several kinds : firstly, goods in transit going from one place to another ; secondly, current stocks in factories and in the hands of merchants and consumers to ensure against breakdown of transport, and delivery facilities, or against breakdown of productive machinery ; thirdly, surplus and speculative stock.

The first two kinds are harmless and necessary shock-absorbers in the chain between production and consumption. The third could equally perform that valuable service, but to-day they are as dangerous in the economic scheme as the famous gun which got loose in a man-of-war in days gone by. It rolled and tumbled all over the deck with the movement of the ship, killing men and causing great damage. At last it was secured by the gallant efforts of the sailor who was responsible for it getting loose. The Admiral of the Fleet, who was on board, decorated him for his gallantry, and then ordered his execution for his neglect in the first instance. This parable might be applied to the world's financial authorities.

The
necessity of
accurate
statistical
knowledge.

There are even to-day fairly adequate statistics relating to stocks of commodities, and nothing is required in order to obtain complete figures except the determination to have them. Once obtained,

a simple statistical examination would very soon determine the proportion of normal current stocks of the first two classes, and therefore the quantity of the third class. In no case even to-day would that be found to be adequate for the purpose set out in the original *Cistern Theory of Stocks*—that is, twelve months' stock of a primary commodity held at cost by the world's central banking institutions. Further stocks would have to be acquired in almost every case to reach that standard.

Now, of course, is an ideal moment for such an operation. If producers and merchants were informed by the banking authorities that no more finance would be obtainable to carry stocks, and they were faced with the large losses that would follow forced liquidation, they would readily agree to sell their stocks to the banks for cash, and producers anxious for output would agree to supply a further quota over a period at cost. But suppose that this golden opportunity is missed (as it certainly will be), when prices are at or below cost in almost every primary commodity, even then if stocks were acquired in the open market over a period of three years, it is unlikely that they would be bought at more than 15 per cent. above cost, which would only leave that amount to be written off in order to hold at actual average cost of production. Below this figure the world can never for any length of time obtain these commodities, and there can be no safer method of holding wealth in the world than commodities at average cost of production ; the values of paper and gold may fluctuate, but essential commodities must over any long period retain their cost value.

The cistern
system
of stocks.

In *Why the Crisis?* I explained the theory and method of the system as follows :

“ The principal central banks—Central Reserve Bank of U.S.A., Bank de France, Reichsbank and the Bank of England—probably through and certainly in conjunction with the Bank of International Settlement, would accept bills against all the present stocks of primary commodities and such further stocks as were necessary to bring each stock up to twelve months’ world supply, based on average world consumption for the past ten years, the price fixed to be that of the average cost of production of the last ten years, less 10 per cent.

“ This means that twelve months’ stock of all primary commodities would be in existence, standing at 10 per cent. under full cost of production. In return for the financing of these stocks, producers would have to guarantee to amortize these stocks at 2 per cent. per annum, and to pay interest on the stocks carried. The central banks would have to use the whole of their influence to provide that no other banks accepted or discounted bills on these primary commodities or lent money against them, or lent money to a firm that was carrying any stock of these commodities other than normal moving stocks. These stocks held in strong hands, not for the purpose of liquidation but for the purpose of stabilization, would have two principal effects : Firstly, they would make famine prices, or any sharp rise above the current price, impossible. The central banking institutions, controlling large stocks, could always prevent that by selling the commodity in question and then re-accumulating as opportunity offered. The impossibility of famine prices would

be a strong deterrent to any large amount of any commodity being speculatively held, as prices upward could easily be constricted within narrow margins, and all inducement to speculation in commodities on any but a minimum and highly professional scale would be eliminated." (*Why the Crisis?*, pages 76-78.)

In that scheme I have envisaged the holding of these stocks at 10 per cent. below average costs. This would be the ideal safety factor, but it need not be achieved at once. The amounts could be written down over a period out of the interest on the bills created against the commodity. This is, of course, tantamount to issuing currency not only against gold but also against staple commodities. Once these have been well written down there would be no risk in this under the currency system I propose with unlimited domestic currency and credit. But since it is a long way to an international system of that kind let us for a moment consider the possibility of a national system, which could at will be extended to an Imperial system, of this type. In *Why the Crisis?* I wrote on this topic :

"Quite different are the reserve stocks to which all the foregoing plan relates: These are stocks, above normal current requirements, held either by producers or speculators in the hope of future liquidation at a more favourable or profitable opportunity.

"Through the knowledge that no sudden or marked rise in price was possible, the whole of the latter class would be eliminated. The former would continue to be financed as at present. The compilation, co-ordination and exchange of world

statistics, which in some cases might have to be obtained compulsory by respective governments (as income-tax returns of to-day), would soon make it possible to distinguish between one type of stock and another.

“Bills and loans on current stocks could be limited to a given total, summarized daily by cable at the international bank, and each transaction would require their ‘frank,’ the absence of which would incur a displeasure which would so rapidly and effectively be visited on the miscreant as to make it not worth while for any responsible institution to break the rules. While each transaction would in fact bear a central ‘frank,’ it would be impossible for one central institution to supervise all the world’s transactions. The supervision would be carried on by agents—that is, the principal central banks, the large joint-stock banks and other suitable institutions working to pre-determined quotas fixed weekly.

“The main question is, however, the great reserve stocks and their effects. Those of the more perishable type would naturally be turned over at suitable intervals, but it would still remain open for producers in times of depression to accumulate their own stocks with all the evil effects of liquid stocks overhanging a depressed market. Let us, however, examine the position of a producer under this régime. Firstly, his price would remain stable, having never risen unduly. Owing to the presence of twelve months’ stock he would not have had any incentive to increase his production too rapidly in the period of accumulating percentages referred to in Chapter I. When depression set in he would find at once that

he was unable to obtain the necessary central 'frank' to increase his current stocks, and that he was subject to inquiry by his banker as to his stock position if he required any financial assistance whatsoever.

"This means that no producers could accumulate stocks except those with sufficient cash of their own to finance them, and these are very few. This type would, in point of fact, be more subject than any other to the type of control suggested, as they would be for the greater part individuals or firms in a large position and therefore all the more anxious not to offend large financial interests. A big firm or individual is bound to go to a big institution when in need, since the resources of small institutions are quite inadequate to their needs." (Pages 78-81.)

"Meanwhile the world at large would have consumption and production balanced by a system. The twelve months' stock financed by the central banks would in each case form a cistern to regulate the supply and demand. At present the system is as elementary as an electric light appliance without batteries, when the light is constantly flickering (like modern commodity prices), or like a water-supply which goes from pump to tap without any intervening cistern. As we have seen, the twelve months' stocks would act as a cistern to prevent sudden shortage, and being a given measured quantity any tendency to overflow would be observed and action taken to check it immediately. At present, there being no measured quantity, no one is sufficiently certain about the overflow to enable effective and concerted action to be taken until the flood has got well under way, and the damage that is being done

has called attention to the fact. Even then, there being no pre-arranged machinery for dealing with the matter, nothing in fact is done, until much damage has occurred that would have been avoidable if prompt action had been taken in the first instance." (Pages 82-83.)

All these considerations apply equally to a single country or nation. No more absurd idea could exist than the notion that the possession of twelve months' requirements of copper held in England could be anything but a source of wealth. If copper existed in a mine in England, readily and cheaply available, it would be called one of the resources of the country. It is even more so if the copper is in a warehouse.

Effectual
direct control
by means of
stocks as
opposed to
ineffectual
indirect
control by
means of
money.

If we suppose the Bank of England held twelve months' stock of the main primary commodities, having purchased them with bills which would of course be accepted by the National Discount Company for currency, it would be tantamount to the issue of currency against commodities, but it should be only domestic currency. Within the national tariff area there would never be any tendency for these commodities to rise far above their normal cost and normal profit price, because if they did the Bank of England could release the commodity in question to steady the price. Every one knowing that up to twelve months' stock was in the country, no one would feel inclined to try to manipulate the market against such an overwhelming force. The same applies to falls in price. If there was a tendency to dump below cost into England the tariff could prevent it. As no domestic speculative stocks would exist there would be little cause

for domestic panic. In any case the bank would have the latitude to increase its stock a little to have a steadying effect, but that would be scarcely necessary.

By these means—dealing direct with commodities themselves, not indirectly through a long chain of paper money and Government securities, bank credit, gold, etc. etc.—the Bank of England could achieve results which cannot be achieved by the fumbling method of the Bank Rate and open market operations, the delayed action of which nearly always produces the wrong result, and whose chief defendants could make no convincing case for them before the Macmillan Committee.

I do not think that stocks of manufactured articles are important in this respect. They are far more adjustable. Moreover, the price of labour being better controlled by the Trade Unions and therefore constant, and the greater part of their cost being labour, they maintain their price better. Raw materials are in a different category and a system which will allow not of their price control (attempts at which have always been disastrous), but which will bring into true operation the laws of supply and demand, will have really a steadying effect on world prices which currency operations are bound to fail to have.

In the organization of markets as they exist to-day the power of selling short, the many weak operators, the power of stampeding a large number of ignorant buyers and sellers, have created a position when the true law of supply and time plays but a small part. Everyone knows that a trifling percentage of sales or purchases can in certain cir-

The dangers
of "short"
selling.

cumstances produce price changes in an hour that all the open market operations of the Bank of England could hardly achieve in a month. I have had to study the prices of shares in the companies in which I am interested, one of which has over forty million ordinary shares. I have known the sale of a few hundred shares move the price by a shilling or more in 15s., and I have seen the dire results of sales uncovering the positions of shareholders with banks, forcing more shares on to the market, thus producing cataclysmic results and prices which admittedly bear no relation to real value. The purchasing power and financial strength of tens of thousands of people are impaired. Months later the slow laborious effort of the market to rise can be observed, but even then the recovery of prices is still a long way ahead of the recovery of purchasing power ; the same applies to commodity markets and prices.

Many of the falls thus described are initiated and exaggerated by sales by individuals or groups of bear speculators who never have and never will own a single share or an ounce of the commodities whose values to the tune of one thousand million pounds or so they destroy. Bear selling in the modern world when the public at large are encouraged to be investors in industrial concerns, to use their money for the development of their country, and to assist in giving their fellow-countrymen employment, is a terrible evil that can and must be prevented. The most disgusting spectacle of the past two years has been to see fortunately a small minority of already wealthy business men piling up new fortunes out of the misery and despair of the human race. If this

is to be the ethics and the morality of the modern world we had better be communists—we should be poorer but more decent.

Time is one element that is lacking in the balance of markets to-day, the technique of which is based on the period when only a few expert dealers operated in them, and every effort (such as short selling) to give increased mobility was desirable. Now that there is a large public interest in securities and a great number of buyers and sellers of commodities, the question of mobility (the power to convert currency into securities and commodities, and *vice versa*) is solved. What is needed is stability. The presence of a buying or selling order to-day, which need not be fulfilled at once and where delivery will not take place for a period, should not disturb the price of an object of which over that period of time there is an ample supply, or for which in such period there will be ample demand.

Mobility the market necessity of the past. Stability the market necessity of the future.

The system of creating large stocks of prime commodities to act as a spring between supply and demand will introduce that time factor which is necessary, and will bring reality to a situation which is to-day a disorganized nightmare. So far as securities are concerned, the power of the National Discount Company to accept them will have exactly the same effect. We have all seen securities vary by thousands of millions in the last two years. But they represented the same factories, the same goodwill, the same management, the same skill, and the same market and the same population. Not one thing had changed, but the geographical situation of a few tons of yellow metal which nobody

wants to use and which they are not allowed to have anyway.

Prices do and must move from time to time—in the modern world nearly always downwards. Production is improved and becomes cheaper. Consumption increases as a direct result. Fresh sources are discovered. But this process is slow, and comparatively orderly and gradual. The writing off of stocks and the steady purchase necessary to keep up twelve months' supply in every growing market would keep values in step until such time as the stocks existing had been written down to nothing. This might take some twenty to fifty years. Large differences do not often or rapidly occur in the modern world. Occasional rises in value due to sudden expansion of demand or unforeseen shortage of supply can also occur. But they too are rare, and in these cases the stocks, which would then be utilized while increased production was being organized, would be of inestimable value to the human race.

For all that, we are foolish if we do not anticipate great shortages in the future: the human race should never forget the Bible story of Joseph and the seven fat and the seven lean years. To-day we have a plethora of everything. Our system is so ill-devised that as a result not less than 20 million civilized, honest, skilled men and women are enduring the horrors of unemployment. That means 100 million human beings in want, and suffering from a stupid blunder. The time will come when drought, gales, floods, disasters will cause great shortages. We shall cry in vain for the plethora then, for the coffee and wheat that was burnt, and the crops that were never planted.

Those who presume to take the responsibility for the management of the world's affairs must not fool themselves because of the results of England's 1931 Election, or the 1932 Conversion, that the human race will for ever tolerate their folly. It is not only our duty to reform the economic system, but if we do not the people will themselves make changes. That way lies disaster.

CHAPTER V

INDUSTRY

Organization
into large
units.

THE limit to which an organization can grow and be adequately controlled, and maintain its personality, is a point which only experiment can determine. Organization in very large units is comparatively a new experience for the human race. The proper balance between centralization and local autonomy is a matter which must be constantly studied and which only individual circumstances can determine.

It appears that the pressures which we can observe throughout the world at the present time will tend towards the rationalization of all the warring and unrelated units that now exist, and the creation out of these of an harmonious and efficient whole. But if this tendency fails through a lack of personality and individuality, it is certain that human beings will direct themselves to the business of providing for a large measure of local autonomy within a larger rationalization, which will embrace a number of local units whose spheres of action will be governed and limited by principles based upon the maximum benefit to the organization as a whole.

This is only a picture on a larger scale of the relationships that existed and always have existed between the individual and the State. Various

attempts in the art of government have been made from time to time which tended to limit the scope of the activities of the individual and to concentrate solely upon collective activity; equally in the opposite direction efforts have been made to provide the maximum liberty of the individual compatible with any form of social order. The fluctuations between these extremes vary from decade to decade, from country to country, and are largely directed by the needs of the circumstances and by the ideas and ideals prevalent among the population at any given time.

It is, therefore, impossible to conceive principles of rationalization as a completed or definite scheme; they will need modification in the direction of centralization or decentralization from time to time as the circumstances of the age demand. At the present moment the development of office organization and machinery—the typewriter, the telephone, teletypewriter, the Hollerith machines, the adding machines and computators—all make it possible to control far larger central organizations than has previously been the case, and the technique of this control is as yet only in its infancy. The science of statistics, the knowledge of tendencies that sample averaging, etc., can display, will undoubtedly, in due course, lead to methods being devised which will immensely simplify the complications of the control of large units and abolish many of the difficulties with which we are faced to-day.

But one of the principal obstacles to the progress of rationalization is the fact that in the past industrial units have, in a great many cases, been built up on personality and upon family traditions which have

Technique
of large-
scale control
in its infancy.

Obstacles to
rationaliza-
tion.

created vested rights and valuable goodwill for particular individuals. An aristocracy has grown up in the past century of families and firms with traditions of commercial and industrial integrity, with reputations for the high quality of their products, who are trusted by the workmen for whom they are responsible, and who generally play a considerable and valuable part in local affairs.

While all of these factors have a relative importance, there is no doubt that they must be submerged in the long-run in the wider public interest of reorganization and rationalization. But in a great many cases the types of firms, families and individuals to which I have referred are not prepared to sink their identity or give up the control of their affairs to a larger unit ; and the economic pressure that would force them to come into line operates slowly and causes a great deal of damage and distress. A striking example of this can be seen in the steel industry. It has still up to date remained impossible to organize a scheme of proper rationalization. This, in spite of the knowledge that the industry from a national point of view has suffered enormously in efficiency, and regardless of the efforts of successive Governments and of the Bank of England to bring about a change. The impossibility of finding fresh capital because there are no profits has resulted in the general impoverishment of the industry, and has naturally caused great distress, both to workers and shareholders.

As against this, in the chemical industry where the vested interests in the goodwill of both firms and families were very strong, a scheme of rationaliza-

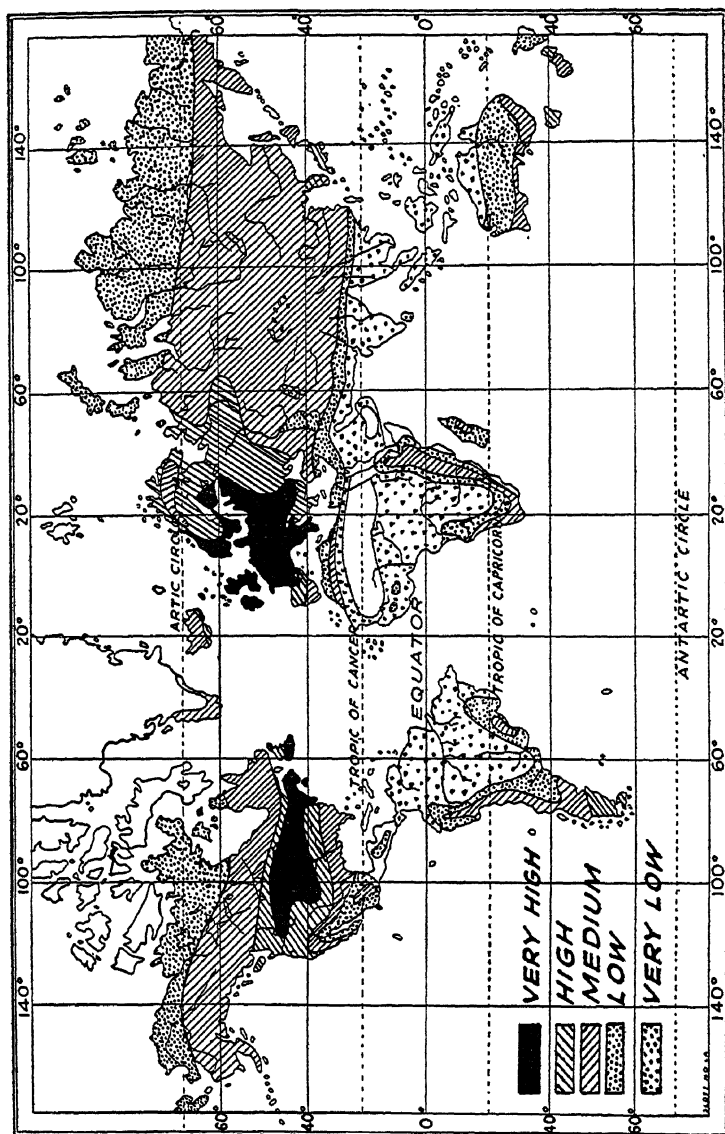
tion was carried through by the breadth of vision and determination of my father, Sir Harry McGowan and those associated with them, which, while to a large extent it eliminated the goodwill of Brunner, Mond & Company, Nobel Industries, and the old and honourable family interest of the Muspratts, created for the British chemical industry, as a whole, a new goodwill which is nationally more valuable, economically more powerful and of greater benefit to the workmen, shareholders and customers, than the admirable efforts of the older concerns.

It must not be imagined that rationalization totally eliminates competition. It does not. It merely controls competition and reduces it to more reasonable limits. If one takes the example of a large rationalized firm in Great Britain with cartel agreements with other firms on the Continent and elsewhere, it must be realized that such a firm is not, and never can be, entirely free from the effects of competition. If such firms were to become hopelessly inefficient, there is no doubt that sooner or later the other members of the cartel would refuse to continue an arrangement which would confer benefits upon the firm in question which, if the cartel were destroyed or so rearranged as to specifically exclude them, they would not be able to defend or maintain for themselves. The value of competition in the economic system has considerably altered in the past twenty-five years. Under modern conditions where the spread of technical knowledge is both rapid and universal, cost differences and competitive power in the industrialized countries of the world have been very much reduced. As an example of this it is

Rationaliza-
tion and
competition.

very remarkable to note how quickly the Haber-Bosch and other nitrogen processes have become common knowledge although they embody the greatest technical complications and difficulties, both of operation and construction.

The accompanying map makes it clear that in all probability industrialization will be, broadly speaking, limited to those areas where human industrial efforts and energy can be readily maintained ; but within that area the power of one firm to destroy another by competitive efforts will remain strictly limited. As Sir Arthur Salter has said in his admirable book *Recovery*, p. 208 : " The world's economic mechanism has lost its self-adjusting quality. . . . We need to supplement it by planned direction, by a regulative control." Everyone with industrial experience is aware of the fact that even an inefficient competitor is very hard to put out of business. One may, by greater efficiency and reduced prices, cause him such losses as will result in bankruptcy and even then see the firm reconstructed on a lower capitalization and in a stronger position than ever before. It is not uncommon for this process to be repeated two or three times over before a firm goes entirely out of existence, and its factories are finally dismantled and abandoned. In days gone by the development of new processes and the large differences of technical efficiency rendered it relatively simple for the efficient to destroy the inefficient and to absorb their business for nothing or next to nothing. To-day this is almost impossible and certainly a rare occurrence. It is almost invariably far more economic to buy out a competitor than to try and force him out.



THE EFFECT OF CLIMATE ON HUMAN ENERGY AS INFERRED FROM WORK IN FACTORIES.
 (Reproduced by Sir Aldo Castellani in "Climate and Acclimatisation," Originally printed in
 "Civilisation and Climate" by Ellsworth Huntington.)

Economic
effects of
competition
reversed.

The economic effects, therefore, of unrestricted competition instead of being beneficial, inasmuch as they tend to destroy inefficiency and to foster efficiency, produce almost the reverse results. Commercial warfare results in a prolonged and bitter struggle in which prices are reduced below the economic level, frequently with no compensating increase in consumption, profits are emasculated, capital rendered sterile, the workers forced to a lower standard of living, progress in research restricted, and all the symptoms of poverty and industrial anæmia are apparent. This retards economic progress, and very frequently results in nothing but a cartel agreement made after many years of bitter struggle and impoverishment when it could and ought to have been made many years previously. This change in the economic function of competition is strengthened by a nationalistic tariff tendency in most industrial countries, and is inclined to produce a further cycle of unsound economic activity through the attempt of the Government of the country in question to protect its industry from destruction by allowing it to make profits under a tariff which is adjusted to meet the competitive power of its opponents.

While tariffs are a most valuable and probably the most practical method of controlling the economic tendency of a nation, and are necessary to any Government in order to achieve a modicum of industrial stability, they must be used with discretion and intelligence and, except in the case of an industry which is definitely necessary for national safety, should not be used in order to bolster up industrial enterprise which is uneconomic in its

operation and location and which does not properly belong to the country.

A further tendency of competition is to reduce the profits of industry to the narrowest possible margin even where it does not actually cause losses, and this in itself is a cause of weakness and instability in the economic system, because a narrow margin of profit means that a trifling alteration in prices, due to world monetary causes entirely beyond their control, brings impoverishment and anæmia to prosperous and profitable industries. This is accompanied by all the economic consequences of reduced wages for workmen and no return upon invested capital, the slump in stock exchange prices, the consequent restriction of credit, banking trouble and all the phenomena of world depression with which we are now so familiar. One of the principal dangers of mass production, with a vast number of units sold at a tiny margin of profit, is the instability which such a condition produces. Therefore the creation of a cartel, which will enable the producer to get more, even if it forces the consumer to pay higher prices, is in the long-run beneficial to the world if it tends towards greater stability.

In the past, competition was the only economic force which led to the reduction of prices and gave opportunities to the world to use products for new purposes, with a consequent expansion of real wealth through the addition to the industrial knowledge of mankind. But to-day there is another and more powerful economic force at work which has none of the disadvantages attaching to intensive competition, and that is the constant desire

The reduction of cost by means of the expansion of markets as a factor.

of the manufacturer to increase his profits by the creation of new markets which he can only obtain by reducing his prices. The motor industry and the work of Henry Ford are striking examples of this new economic force. The modern manufacturer is continually searching for methods of reducing his costs with a view to reduction in prices and extension of his market; but such price reductions are economically sound, leaving the producer a satisfactory margin of profit, which is not the case when reductions come about as a result of unrestricted competition in the modern world. Therefore, competition must be regarded in the same terms as the tribal warfare of days gone by, and it must be recognized that the development of science and the general levelling of technical knowledge and efficiency throughout the industrial world has produced a new condition of affairs which demands different methods in order to obtain the maximum benefit for mankind.

Marginal
costs.

The development of mass production has brought prominently to the fore the question of marginal cost and much of the international competition, which has been and which still is a factor in world industrial instability, has been the export from one country to another of goods produced at marginal cost and sold at prices below the true economic level. This question of marginal costs as a factor in the present disturbance of the economic machine has now been given its due weight. The recent League of Nations Committee on Gold complained of the barriers that each country created to international trade. They overlook the fact that with mass production methods and surplus plant a great

proportion of international trade consists of dumping below the cost of production. This tendency is bound to be checked by a tariff system, but ultimately the true solution is the formation of international cartels based upon territorial agreements and a free exchange of technical information and patents. It is axiomatic in science that no country has a monopoly of invention or of knowledge, and that the free international exchange of scientific information produces a more rapid world advance which in the long-run is to the benefit of each individual community, although from time to time one community may outstrip the other in scientific and industrial development. Therefore, the ideal system would be the territorial division of the world's markets among the industrial countries, with a free exchange of scientific knowledge, so that industrial producers should concentrate their activities on the maximum development of those markets allocated to them, instead of every industrial country trying to study and develop the whole world, with a consequent creation of overlapping organizations and diffused and wasted efforts.

The last decade has seen the development of intensive selling leading to what are called "forced sales"—that is to say, intensive efforts to persuade people to buy commodities they cannot really afford by systems of deferred payment, enormous advertising expenditure and every other method of making the commodities as attractive as possible. While intensive selling undoubtedly provides the service to mankind of bringing the producer in touch with the maximum number of potential

Intensive selling and forced sales.

consumers, forced selling is an economic evil, because forced sales cannot be maintained, and are bound to diminish in volume. Generally speaking, forced sales go hand in hand with mass production and a narrow margin of profit, and, therefore, when forced sales tend to decline and production is of necessity reduced, profit is wiped out and the capital expenditure upon the factories which have been built in the expectation of the continuance of consumption on the forced sale level, are rendered redundant and become a dangerous factor in industrial instability. Eventually there will have to be far more active co-operation between the retail and wholesale trades, and rationalization will have to stretch out its calming hand over this arena of fevered speculation.

The importance of a new era of ordered industrial progress.

We, therefore, see coming into existence an industrial world based upon restricted competition, organized national and international efforts, and the distribution of the fruits of progress to the worker and the consumer, through the medium of the sharing of profits with the capitalist rather than by the reduction of prices as a result of unrestricted economic warfare. It is essential, if there is to be stability in the modern industrial world, that profits should be made and then shared out to the consumer and the worker rather than that the consumer, which is the public at large, should benefit from the spasmodic results of industrial warfare. The world has in front of it a continual development, both scientific and industrial. It is necessary that capital should be provided for these developments and that the private citizen should invest his money in sound industrial enterprises.

Those enterprises must earn profits or else his capital is wiped out ; and upon each occasion when capital, which has been subscribed for legitimate industrial development, is wiped out, the whole economic and financial structure suffers, and progress is retarded. Competition, the desire for individual profit and gain, and the possibility of one man improving his situation in life as compared with his fellows, must remain the mainspring of industrial progress ; but there is no reason why this force should not be confined to such channels as will conduce to its producing the maximum benefit and the minimum damage to the progress of the world.

In March 1932, just before the last Stock Exchange slump, the daily press was full of the talk of British recovery. Headlines filled the papers telling of the recovery of the pound, the lowering of the Bank rate from 6 to 4 per cent., later even to 2 per cent.—the Bank of England's repayment of the loans obtained in September 1931 from U.S.A. and France. It is all very encouraging and hopeful.

The profits
of industry
the life-
blood of
Britain.

But what is it that is supposed to have recovered ? The British Isles contain the same population, the same leading men, the same factories, harbours, roads and cities, the same shipping and insurance organizations, the same natural resources as last year, when all was gloom. The Budget is supposed to be balanced, based on taxation, admittedly too high to last long, and whose yield is dependent upon the receipt and income of the citizen. If that income continues to fall, the next Budget will not balance.

Whence does the citizen draw this income ?

In the main from the profits of industry. True, there is a certain National income from Banking and Insurance. It is a small proportion of the whole ; the rest is derived from the profits of industry as wages, salaries or dividends, or as rents, commissions and so on, all based on values and interests created by the profits of industry.

In the ultimate analysis, therefore, it is the profits of industry that are expected to recover, and according as they rise or fall a couple of thousand million pounds or so are added to or deducted from the value of listed securities, forming or destroying a new basis for credit and purchasing power ; repairing the damage that the violent and unthinking flight from investment had done ; making people solvent who before were insolvent, positions liquid which previously were frozen, or repeating on a small scale the previous catastrophe.

And what are the factors that might lead us to expect a recovery in industrial profits. Not a general rise in prices. That has not come and is not taking place. There has been a slight diminution of the continual fall—a very good sign. Not the recovery of the foreign exchange value of the pound. On the contrary, part of the reason for expecting better industrial conditions in England is the decline of the pound and the additional competitive power in the world's export market that is gained thereby.

The institution of tariffs has been a real and powerful factor. It means that the British manufacturer can plan to satisfy his home market in safety and security—to calculate that if he can increase production and expand his market by

lower prices, he will not be suddenly overwhelmed by dumped goods. It means he can decide what proportion of his output he can afford to export at marginal cost and increase his earning capacity. Coupled with the improved competitive power given by the fallen pound and the arrest in the fall of world prices, there is a real and sound reason for expecting better industrial profits.

In addition, the great Conversion Loan has gone through and has proved to be a huge success. This is, of course, an added reason for revival, not because it produces any economies worth mentioning in the present Budget, but because by reducing the return obtainable on gilt-edged securities, it forces money to seek more lucrative terms in industrial and other investments. This had the effect of tending to raise the prices of all other securities and has diverted a certain amount of investment buying into American securities which were unduly low, and seems thus to have started a reaction against slump and depression.

I said in *Why the Crisis?* that the fall in prices would be at an end when more people thought things were cheap than thought them dear. This desirable state of mind seems now to have been achieved.

But, realizing this, let us remember that whether the Bank of England chooses to regard the interests of British industry, or to play some private game of its own with little bits of paper and gold counters, it is the profits of industry, the output of many millions of tons of material and manufactures a day at a profit to the producers, the employment under decent conditions of millions of good citizens, that

are the life-blood of Great Britain and govern the lives of the population ; that produce the wages of her artisans, the salaries of the technicians, the income of the professional men, and the amount that the Government can draw in taxation, for waste or for national benefit, according to the wisdom of the political leaders of the day.

The danger
of foreign
balances in
London.

Of course, the recent repayments to the U.S.A. and France, and the recovery of the pound, are due to the placing of foreign balances in London, in the hope of a greater return and of greater security in view of the confidence of the foreigner in our industrial recovery and, therefore, the stability of depreciated sterling and even a substantial rise in its value. This is coupled with the fear of a certain amount of American currency inflation, and a generally unstable world outside France, which is already chock-full of money.

This position constitutes a danger, inasmuch as it may lead to a continuance of the system of London depending on foreign balances for the stability of sterling. This is an absurd situation for a country like England, and more so for the world's greatest Empire. We are a rich and a prosperous people, continually lending money abroad. We do not require foreign money. We can make plenty of our own. The system exposes the security of the British people through their currency to all the vicissitudes and panics of foreign finance—and even if we can relend the money at a higher rate of interest and the City can make a turn, the nation as a whole is definitely a loser through the instability that results.

We have had to create a fund of £150 million,

so that the Treasury can dominate the speculation in sterling in the foreign exchange market, and to prevent the bull operators carrying sterling up to an uneconomic level.

Under the system of double currency which I have suggested this type of speculation would be impossible, because the foreign exchange currency would be based on gold, and the domestic currency would be very difficult for foreign speculators to deal in. Foreign exchange speculation depends upon hours if not minutes. The introduction of a few delays and difficulties would soon discourage this practice. In fact, all these difficulties can be overcome, if the will is there to overcome them. The Treasury, having made up its mind to control exchange, has got its £150 million from Parliament. If anyone had suggested their borrowing this sum to control the Stock Exchange position in 1929, and so to prevent at least 75 per cent. of the present disaster, they would have been looked upon as wicked and mad. Yet the principle is the same.

Meanwhile, the profits of industry are bound to be affected by certain other and very difficult considerations. Whatever trading profits may be, the amounts that can be distributed in dividends depend upon the condition of the balance sheets of industrial concerns and the views of their auditors on certain subjects.

Present
system of
industrial
accountancy
as a factor
against
recovery.

In no part of industrial practice more than in this is radical reform necessary. The whole basis of the construction of the balance sheets of limited liability companies is hopelessly out of date. It is based on concepts of fifty years ago, and as a

result the position of both auditors and directors has become amazingly difficult, while the public frequently suffer through not having figures put before them in a clear and intelligent manner.

The first conception of a balance sheet as now presented is based on the out-of-date notion that machinery and buildings, etc., have intrinsic value. This was true in the middle and towards the end of the last century. The quantity of machinery in the world was limited, the designs and requirements altered but slowly, and with the continual industrial development there was a solid demand (fluctuating, of course) for machines and factories as such. Therefore, if £100,000 were spent in that way, it remained worth a substantial sum even if the business which owned it failed and went into bankruptcy.

To-day the position is quite different. In the first place, the machinery, unless thoroughly up to date, has no market value. Further, since the requirements of manufacture are highly specialized, each factory needs an entirely different type of machinery. Moreover, there are plenty of factories, probably too many. What is required is the concentration of factories on the best sites and the development of processes on a larger scale.

Therefore, nowadays, £100,000 spent on machinery and buildings means nothing more than that amount of money paid out in wages and for material, clay burnt into bricks, iron ore and coal worked into the right shapes ; and if no profit arises from the result of the operations that are carried on with these materials, the whole plant is worth next to nothing.

Now the method of expressing the affairs of a company in a balance sheet, whereby you begin with 75,000 ordinary shares of one pound each—£75,000—and, say, £25,000 preference shares of one pound each, was based upon the old idea that the money had been properly spent, and the shares had something like a par value.

To-day the preference shares in a decently constructed concern probably have such a capital value, but the ordinary shares represent neither more nor less than an unlimited share in the profits of operation after all prior charges have been satisfied ; in nearly all cases they have no capital value at all. The assets of a public company may vary infinitely, but the number of cases where it could be truly said that if the company went into liquidation because its factories could not be carried on at a profit any capital value would remain in the ordinary shares must be very, very few. On the other hand, as a general rule, the opposite is true.

Now one of the practices that has grown up in recent times, under the pressure of the professional chartered accountants, is that of writing down the value of plant and machinery in the books of companies out of profit every year. This is not a statutory obligation, no company is required to do it by law, but the custom has grown up, and any failure to comply with it is pointed out by a strong comment by the auditors on the face of the balance sheet. The details of this question are far too difficult and intricate for discussion here, but the main principles are based upon the fallacy of the one pound ordinary share, which in ninety-nine

The
£1 ordinary
share.

Deprecia-
tion and
obsolescence.

cases out of a hundred leads to a misconception of the facts.

Now the *idea* that by withholding a certain proportion of the shareholders' profits every year you preserve the value of their shares by keeping the buildings and machinery in such condition that they always represent their original value, or that you create a fund so that when the said assets have become valueless, you are able to replace them, is sound enough. But it does not occur in practice.

The practical facts are that you are bound to keep machinery and buildings in sufficiently good order to maintain safety and efficiency—the first by law, the second by competition. This naturally comes out of profits. But if depreciation merely means, as it commonly does, that you withhold a certain proportion of the shareholder's profits, and spend them on further factory developments or the extension of your business, you are doing nothing else but make a compulsory annual levy on the shareholders for the expansion of your business. You in no way affect the assets depreciated. They are kept up as stated above. They continue in use until they are obsolete. You take some annual profits and create new assets which have no value unless they can work at a profit. If the whole process becomes out of date, and loses money, none of the assets have anything but a break-up value.

Now the true conception is the share of no par value. This is common form in the United States. It has always been opposed by the London Stock Exchange on the ground that it lends itself to the

promotion of swindling companies. But the shilling share is just as bad, and swindlers will find ways of swindling as long as mugs are mugs and part with their money. A really effective method of checking fraudulent flotations would be to have a Public Issues Board, whose stamp on a prospectus would be necessary before any firm of brokers were allowed to appear, or any bank would handle the subscriptions, or any respectable man appear as a director, or any firm of solicitors were allowed to act.

Such a Board need not make itself responsible for the accuracy of every statement in the prospectus. The first directors are already criminally responsible for that, but they could use a common form of words such as this : " We have inspected and examined the prospectus of the X.Y.Z. Company. The statements presented in it appear to be true, according to the information we have obtained from the directors and from other sources. There is in our judgment no sufficient reason why this company should not make a public appeal for subscriptions."

A non-committal statement of this kind in small print on a prospectus would have no practical effect at all, except to prevent the issue of really bad and misleading prospectuses and to save the nation a good deal of capital which is to-day wasted by subscriptions to thoroughly bad issues. The Board should consist of practical and experienced men, all of whom know a really bad issue when they see one, and who would have to err on the side of being favourably inclined to doubtful cases so as not to be unduly restrictive.

The share
of no par
value.

This has taken us away for the moment from our share of no par value. The advantage of this denomination is that it tells the truth more often than the shares of nominal amount. If £100,000 are spent on plant and machinery, and £25,000 preferred shares are created and 75,000 shares of no par value, the consequent balance sheet might look roughly as follows :

| <i>Liabilities.</i> | | <i>Assets.</i> | |
|---------------------------------------|----------------|---|----------------|
| 75,000 shares of no par value | Nil | Plant, buildings and machinery (scrap and site value) . . . | £15,000 |
| 25,000 £1 Preference Shares | £25,000 | Stocks and stores . . . | 5,000 |
| Reserved out of profits . . . | 5,000 | Patents, processes, goodwill and formation expenses . . . | 3,000 |
| | | Cash at bank or in hand | 2,000 |
| | | Investments against Reserves as per schedule . . | 5,000 |
| | <u>£30,000</u> | | <u>£30,000</u> |

You at once begin to get a true picture, and all the endless questions as to whether this has been depreciated or that written down sufficiently never arise, because it is all written down to start with. On the existing accounting basis we should have £75,000 worth of ordinary shares appearing as a liability balanced by £75,000 worth of plant, buildings and machinery. Immediately we begin to write down our assets by £3,500 a year at least, and the liability of the corresponding reserves is offset by some all too frequently overvalued extension of business or property.

Advantages always accrue from a truthful presentation : the mind gets easily enough muddled in the maze of figures without creating any un-

necessary difficulties by matters of form which tend to obscure rather than to display true facts. Outside the immediate circle of those engaged in company finance, the vast majority believe that the money set aside for depreciation is kept quite separately for the purposes for which it is earmarked. It would be better for industry if it were, and it might figure on the balance in the way shown in the draft balance sheet above.

But depreciation in the modern industrial world is meaningless. What is really required is that a substantial sum should be built up and held in reserve in investments which cannot crash, so that if a process or part of a process becomes obsolete it can be at once replaced. The running plant is bound to be fully maintained in working order out of revenue, or costs will rise and destroy all profits.

Reserves
and
investments.

In a well-managed company this maintenance should amount to continual renovation—when a pump wears out it should be replaced, not by another of the same design but by the very latest type available. In this way, providing the process is not obsolete, the plant should continue almost indefinitely—certainly till the whole method of manufacture is completely obsolete.

Under the present system, if assets have a long life, they get written down to next to nothing in the balance sheet, and then are very often written up again, because otherwise the balance sheet is just nonsense. So this process of writing down and then writing up continues, while everybody argues as to whether you should take replacement cost on the site, or on an ideal site, or earning capacity, or something else as the basis of valuation.

If you once accept the truth that the only certain value of a plant which has ceased to run because it is losing money is its scrap value, and that its value meanwhile is the average of its earnings over a period, a more valuable asset is created (as long as it continues to earn) than what are erroneously called solid assets in good times and frozen assets in bad ; and you approximate to a true picture of the position.

The question then remains as to how to invest the money set aside for obsolescence. The first principle is that it should be readily realizable at fairly short notice. The second is that it should earn a good return. The latter is the real argument in favour of reinvesting it in the same business. The directors know that business and feel they can more safely earn an adequate return there than in some other business. This is true, but takes no account of the question of liquidity.

The advantage of having it invested in some other business is that you can sell the shares and get cash. Of course, it can be argued that if you have surplus assets you can issue your own shares and get cash. That is not true if you have had, or are having, a bad year. In that case you are not only usually also up against strong competition and very loath to publish the figures required for prospectus purposes for fear of encouraging your competitors by the display of your own weakness, but may also be making such losses that a public issue is out of the question. On the whole, the wisest course should be to hold first-class industrial investments of which the directors of the company concerned have some first-hand knowledge, and a

certain proportion of gilt edged as a back-log. By this means the considerations both of liquidity and adequate return can be satisfied.

No board really has the right permanently to hold large amounts of its shareholders' money in gilt-edged securities. Shareholders can do that for themselves. They have no need to pay a management to do it for them. Nor in truth has a board the right to withhold shareholders' profits in order to expand into new lines of business, without the shareholders' permission. The profits belong to the shareholders. They have taken the risk. Most managements hate paying out in dividends the good money which they see will give them the chance of branching out into new and interesting directions and will constitute a great safeguard against any unforeseen troubles. In reality they should make fresh issues for definitely new ventures. But the question of what proportion of profits should be paid out and what retained is one of considerable difficulty, and there is no hard-and-fast rule. It depends on the circumstances of the business and the temperament of the management.

There is, however, a completely different problem of the division of profits when they are adequate, which in the world's saner intervals is fortunately not so rare : that is the right of capital to retain all the profits in return for its risks. When finance, the most elusive of all problems, becomes chaotic every ten years, of course any limitation of the profits of capital, with taxation at its present level, is unthinkable ; but in a world where a modicum of industrial stability could be achieved there is every argument in favour of devising a

The
division of
profits.

division of profits, above a certain amount, among the three principal parties interested in industry : capital, labour and the consumer.

If the maximum development of Western civilization is to take place, the willing co-operation of the workers is essential. But, for myself, I put it on much higher ground. Is it possible to justify the existence of Western civilization, except on the basis of the continual improvement of the conditions of life of the whole population which the developments of industry produces? Is not our first duty to the human beings who spring into existence as soon as we make their existence economically possible?

Industry
must be
based on
human co-
operation.

There can only be one honest answer to that question : The first duty of every industrial leader is to the human beings upon whom his industry is based. It is his business to look after them all, not as pages of figures from the Labour Department or the Registrar or the sales returns but as human creatures like himself.

True efficiency can only be obtained through the co-operation of the human organization. Profits can only be made available by low costs of production, and profits are the true source of the increasing wealth of mankind—means whereby he has command over more of the forces and materials among which he lives than he had previously.

A constant dictum of my father was that the goodwill of the workers was an asset that ought to be inscribed upon the balance sheet of a company in letters of gold. Many of the critics of rationalization have stated that that was to be deplored on account of the mechanical organization that it

implied, and that the working man would no longer have any personal contact with his employer and would just become a number. This is far from true.

The real fact is that this lack of contact between the working man and his employer is no recent phenomenon. In my grandfather's early days he knew every man in the factory. Even in his lifetime the organization and number of factories under his control made the continuance of this desirable state of affairs impossible. In my father's lifetime, although he grew up with the Brunner Mond workmen from a little boy, it was even more impossible.

Contact
between
worker and
employer.

Those two generations represent what will come to be known as the chaotic period of industry. The personal contact had passed, and all that remained was its traditions and goodwill on both sides, imperfectly expressed ; or, in many cases, bad will. In 1848 the Prince Consort saw just the same sort of trouble as we have experienced in the past decade, and which my father worked so hard to alleviate, against such bitter opposition from the majority of British employers.

In his excellent life, *Albert the Good*, Mr. Hector Bolitho tells us that speaking from the chair at a meeting of a society for improving the conditions of the working classes the Prince Consort reprimanded the capitalists, warning them "to avoid any dictatorial interference with labour and employment." He expressed the view that it was only ignorance which prevented employers and workmen from having confidence in each other.

Nowadays with larger units of organization the

claims and the just aspirations of the working population are coming more and more to be recognized. A large organization can efficiently arrange contact between its management, its labour and its shareholders. Works councils, works magazines, organized athletics, etc., can give opportunities for the regular meeting together of employer and employee where there are other things than wages disputes to discuss.

In the past, these interests and the individuals who represented them rarely met except in an atmosphere of strife and antagonism. Thus they learned to hate and distrust each other, while the party orators of the Socialists fanned the flame of class hatred in a way for which England will hardly forgive them. The diehard Tories were often fools, but they had history and tradition behind them. They were not altogether inhuman, but they demanded blind obedience and subordination to their point of view, which was often directed backwards instead of forwards.

I know the difficulty of turning them around, of getting people in England to take any interest in progressive politics or any form of change ; but a party based on the evanescent bubble of class hatred could not survive. I believe that with the 1931 election it may disappear into the limbo of things past and done with, but whether it will or whether it will not flourish depends upon whether the National Government and its supporters can deliver the goods. If they and their successors cannot, it may become true that hatred and passion will be

the only powers strong enough to force a new outlook on the world.

It is, however, essential that organized industry should realize that it must give the workmen and the trade unionists wider interests in industry than disputes about bonuses and wages. No greater mistake was ever made than the idea that these are all the working man cares for. These are all that the employer will, as a rule, discuss with him ; but experience has shown over and over again that if you have the men with you and they trust you, and you require a great effort and a great sacrifice from them, you will get it if you are just.

The workmen of England are the same men who went over the top in the war and who have shamed all of us who lacked confidence in them in 1931. They will give nothing for nothing. But they will do anything for loyalty and affection. The new era of rationalization, if it is based on profit-sharing, if it is based on national co-operation, if the great British firms that arise out of it have a specially organized department of their staff led by someone of directorial responsibility whose only consideration is Labour, its progress, development and future requirement, whose business it is to find ways and means of arranging for the management to meet the men on frequent and friendly occasions—to express the mind of the one to the other—to smooth out difficulties and never allow them to grow into great principles (one of the most frequent causes of dispute is the little incident which both sides are foolish enough to call a question of principle), then rationalization will be a boon to the worker and the country.

Large
rationalized
firms can do
more for
their
workers,
staff and
shareholders
than small
firms.

There is more chance that all this will be done by large rationalized firms than by small firms. The latter can afford less, feel weaker and more subject to competition and are usually afraid to give way to their men even on little points. The larger firms on the whole have had more advanced policies, bigger men at the head, with a broader and more national outlook. They are also, as a rule, far better informed as to what is happening in other parts of the world. One frequently finds that an association of firms representing an industry is unable to proceed upon some reform because the weaker members cannot afford it, although the industry as a whole obviously could. This is a source of weakness and a force against progress which rationalization on the whole tends to mitigate.

My father defined rationalization for the Dictionary as :

“The application of scientific organization to industry, by the unification of the processes of production and distribution, with the object of approximating supply to demand.”

The implications of this definition are very wide. They presuppose a balanced industrial system, where the actions of each part are subordinated for the benefit of the whole. A necessary corollary is the disappearance of the industry which consists of a number of independent and disunited units in favour of large centrally controlled organizations.

It should not be forgotten that as a rule an industry whose individual units are combined can afford more for its research, and therefore eventually its customers ; more for its workers, staff and

shareholders ; and is stronger to stand up to foreign competition, than any single firm.

One of the principal problems of this type of organization will be to evolve a system where local autonomy and individual development and the subordination of local and individual interest for the good of the whole are in equilibrium. While it is true that modern research requires vast sums of money quite beyond the powers of an ordinary individual or of any save the largest and strongest firms who can write off great losses for failure and afford to wait for results ; yet I cannot say that I have much faith in new inventions and original thought emanating from the splendidly equipped and organized laboratory on the grand scale. Most important inventions have been made with the most rudimentary apparatus under primitive conditions. This is typical of the whole problem. The strongly individual man who is most needed for leadership is likely to prove an unsatisfactory junior. Mankind will require more wisdom and restraint than it has shown in the past if it is to solve this problem correctly.

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CHAPTER VI

EMPIRE

It is impossible to consider either world or British economics without taking account of the fact that one quarter of the earth's surface is loosely organized in a unit which is commonly known as the British Empire. The political significance of this fact was entirely overlooked by continental countries prior to the war, but the effect of the whole-hearted co-operation and the mutual effort of the British Empire from 1914 to 1918 was of such a character that no country and no individual can ignore the existence of the Empire for the future.

Imperial
Economic
Unity fore-
shadowed
in 1916,
but neglected
by all
parties.

In 1916 the first Coalition Government set up a committee to consider the problems of post-war trade, and that committee frankly recognized, in principle, the importance of what has now become known as "Empire Economic Unity." Yet fifteen years passed before any great national movement was instituted to bring this policy into being. It is true that a certain section of the Conservative Party, led by the disciples of Joseph Chamberlain, and who were trained and inspired by him as young men, believed that this was the ultimate destiny of Great Britain and the Empire, and made unremitting and strenuous efforts to induce the Conservative Party to adopt Empire Economic Unity as its principal if not its sole and all-embrac-

ing creed. But ardent as was their work, and their faith, they singularly failed to succeed in their object in spite of both the great victories and great defeats of the party between the years 1922 and 1929. And when, indeed, the movement grew to large proportions under the influence of many prominent men, both in politics and industry, and led with untiring zeal and energy by Lord Beaverbrook, the Conservatives continually funkcd the issue. Under the leadership of Mr. Baldwin they made a series of ignoble and fruitless attempts to shift their ground, and avoid the issue by means of hair-splitting and fact-dodging which would have done credit to the Liberal Party itself, but which was sadly out of place among the Conservatives. At last in 1931 a National Government was elected whose leaders went to the country without a policy or programme or even any form of concerted agreement upon the principal question of the day. Like most of England's great battles, the election was won by the soldiers rather than the generals. An enormous majority of the elected candidates boldly and unequivocally put Empire Economic Unity in the forefront of the appeal to the electors, and as a result the policy, with its implications, became the policy of the present Parliament, and will undoubtedly, with much halting and stumbling, eventually be carried out.

It is, therefore, impossible to complete a study of this character without a chapter devoted to a fact of such overwhelming economic importance to the world at large. It would be perfectly sensible and logical to write such a study as this entirely from the angle of Imperial Unity. But

so much passion has been aroused over this question, and both my father and I myself have been so much involved in its politics in the past that any economic arguments put forward from that angle would certainly be looked upon as prejudiced.

Identity
of main
interests of
component
countries of
Empire.

The first main principles to be recognized are that Great Britain is an established exporter of manufactured products, and the Dominions and the Colonies established exporters of food and raw material. There are, of course, manufacturing industries in the Dominions, and the production of food and raw materials are also essential parts of the economic life of Great Britain. It is impossible to conceive a community in Great Britain which is totally devoid of any agrarian activity. It is equally impossible to conceive that the Dominions should be totally without industrial activities, or the life and development which comes with the existence of great cities. But in each case, with agriculture in the case of Great Britain, and with industry in the case of the Dominions and Colonies, these activities only serve the home market ; thus it is that Great Britain and the Dominions have a vital mutual interest in the development of each other's markets and in each other's economic strength.

The success of the recent Empire Economic Conference at Ottawa must not be belittled. In my view it was little short of miraculous that such a large measure of agreement should have been reached in such a very short space of time. You cannot expect to rationalize a quarter of the world in thirty days. Moreover you cannot rationalize the Empire at all on "get rich quick" lines. Moreover, the full possibility can only be realized

as the Dominion markets and power of production expand.

"It is clear that in foreign markets Great Britain has lost much ground, and still finds it hard to compete with exporting countries where lower costs of production prevail. In Empire countries Great Britain's position is more favourable because the result of the shelter she receives is to reserve for her manufactures a high proportion of these markets." (F. L. McDougall, *E.M.B.*—Pamphlet No. 23.)

By preferences, without reciprocal action on our part, the Dominions have shown a practical desire to purchase British instead of foreign products. An increasing percentage of our manufactured exports goes to the Empire overseas: 1913—42 per cent.; 1928—47·7 per cent. Of manufactures exported in 1928, the values were :

| | |
|------------------------------|--------------|
| To foreign countries | £303 million |
| To British Empire | £276 million |

Taking in detail principal British exports in 1928, the comparison between foreign and Empire purchases is as follows :

| | Million £ Foreign. | Million £ Empire. |
|------------------------------|-----------------------|----------------------|
| Iron and Steel | 31 | 36 |
| Machinery | 28 | 26 |
| Cotton goods | 81 | 65 |
| Woollen goods | 39 | 18 |
| Other textiles | 18 | 12 |
| Apparel | 8 | 18 |
| Chemicals, etc. | 14 | 11 |
| Vehicles and Ships | 19 | 28 |

Thus, although not inhabited to capacity, the Empire buys, in considerable quantities, what we have to sell.

Migration
and the
distribution
of popula-
tion.

Now that the policy of the Government is to create an economic unit within the Empire, and now that we are prepared to give preference to our Dominions for reciprocal benefits, it is clear that we shall be able to obtain and retain a far greater proportion of the Dominion markets, thereby finding further employment for our own people ; and we shall automatically have a greater interest in the development of the Empire overseas, and in coming to such an arrangement with them as will serve to distribute the surplus of British population throughout the Empire upon a sound economic basis, instead of those great territories being populated by settlers from Central Europe as is the case to-day.

Making every allowance for climate and other natural disabilities, there remain within the British Empire vast undeveloped areas which can be occupied by the white races. Per square mile the population of Canada is only 21.41 ; of Australia, 2.12 ; of New Zealand, 14.24 ; and of South Africa, 14.67. Whereas the figure for Great Britain is 536 ; U.S.A., 35 ; and Europe, 117.

But we shall never achieve full success in this direction unless and until we provide a system of organization which will facilitate free and willing migration from this country to the Empire. At the same time it is to be noted that from a national point of view nothing is more valuable than the immigration back to this country of those who have made their lives in the Empire. They are a virile and determined stock when they return to their Homeland. They should be treated with respect and affection, which is due for the pioneer

work in which they have taken part, rather than as hooligans or even criminals, as it is rather the fashion to regard them to-day. It is equally important that those who live in the Empire overseas should realize that unless they are very careful the great opportunities which exist to-day of populating their countries with sound British stock of the type from which they themselves were drawn will have passed. It is equally idle to be contemptuous of the manner and habit of speech of the Englishman, or to imagine that because he has been so unfortunate as to be unemployed since the war, he is not the same man or at least representative of the same type that fought with inestimable heroism and tenacity from 1914 to 1918.

But the objections to immigration do not only lie in this. The population of Great Britain as a whole, after many years of comparative security and supported upon the humane basis that none shall suffer the extremity of starvation, is not prepared to relinquish all the benefits of civilization at home and to embark upon an unknown life overseas. If sufficient economic pressure existed, and if the doors of the Dominions were open, undoubtedly there would be a greater tendency in this direction.

When the reconstruction of France and Belgium was undertaken after the war, many English towns adopted towns in the devastated areas and made it their special business to care for their welfare. If the same principles were adopted for the British Empire as a national campaign, and the great and even the lesser cities of Great Britain were to adopt new settlements in the Colonies and the Dominions,

A plan to
facilitate
group
migration.

which would be called after the parent cities at home, a natural channel for migration could readily be established. It would be necessary for the Dominion and Colonial Governments to provide the land for such settlements, and it would be necessary for Great Britain to provide the population and the capital. But when one realizes the vast sums that have been spent on uneconomic works in relief of unemployment in Great Britain in the last ten years, and the vast sums which are spent in normal unemployment and poor relief in Great Britain annually, one realizes the truth of my father's dictum, when ten years ago he was Chairman of the Cabinet Unemployment Committee. He then laid down that unemployment could never be solved in Great Britain alone. He appealed to Mr. Lloyd George, who was then Prime Minister, to let him have £100 million, with which he claimed he could solve unemployment by Empire development.

Special
means of
finance.

It would be necessary for the migrants to be provided either with capital or with income until such time as they became self-supporting on the land provided for them by the Dominion or Colonial Government. This system has been most successfully tried out by the Zionist Organization in Palestine, who have, in addition, had to buy every square inch of land for settlement into the bargain. It would also be necessary to provide funds for municipal development, the creation of roads, telephone systems, postal services and building quarters, sanitation, hospitals, schools and infant welfare. A simple and effective means of providing the money for these purposes would be for Parliament to grant to the municipalities who undertook

this work the privilege of raising loans at 3 per cent. free of taxes, the proceeds of which would be devoted to financing the municipalities of their adopted "infant" townships overseas. For these purposes an Imperial Board would have to be set up in order to see that these issues were economically sound, and that too much money was not borrowed for extravagant expenditure, and that the money was used for the purposes for which it was raised. It would probably be a necessary provision of these loans that they bore no interest for the first three years, or that the municipalities or Central Government paid the interest for the first three years until such time as the development of the settlement in question made it possible for the interest to be met. But this tiding-over period would be a trifling consideration in view of the magnitude of the scheme as a whole.

By this means whole communities would be organized and sent out. It would pay the Government of Great Britain to use the hundreds of thousands tons of idle British shipping, and to employ the thousands of idle British sailors, and to employ thousands of idle British miners to raise the coal, in order to transport such communities free. These communities would need every sort of individual skill—schoolmasters, shopkeepers, clergymen, doctors, nurses, shoemakers, smiths, carpenters, agricultural experts, surveyors, engineers, architects, mayors, town clerks, bricklayers, plumbers, mechanics and artisans of all descriptions, in addition to those who would be the farmers upon whom the economic life of the community would be based—and they would have the inestimable

Complete communities could be formed for emigration.

advantage of all going together, imbued with the same pioneer spirit, the same determination for success, and held together not only by loyalty to the Empire and British people but also to the cities from which they had all started. Later, when the settlement was established, other men and women from the same city would be able to go out, knowing that they would find friends and relatives from their own town with whom they would be at home instead of going out among strangers.

The solution of the problem demands the right pioneer spirit.

But such a plan can only be carried through—in fact the whole scheme of Empire Economic Unity can only be carried through, if the British people as a whole throughout the world are determined to develop their great heritage—helping each other, trusting each other, working with each other, and each and all prepared to make sacrifices for their individual interest and for the benefit of the Empire as a whole. It is useless to embark upon any scheme in which the watchword is “England first” or “Canada first” and the “Empire second.” If success is to be achieved and the many difficulties and disappointments with which the way is beset are to be overcome, the watchword must be “The Empire first.” When one sees the work which has been done by the Jews in Palestine, a little country about as big as Wales, by a scattered people, divided by every language in the world, discouraged by every fact and circumstance of their existence, and one realizes that in 10 years they have successfully brought 100,000 people a year into that country; and one realizes at the same time that in Southern Rhodesia, a country bigger than France, the British people have in the same space of time

succeeded only in introducing about 10,000 people altogether, it is clear that unless the British people set about their task with real enthusiasm and with a real determination to create an economic Empire of the British people, they can never truly succeed.

But if once they become inspired with the ideal, they have the courage, the perseverance, the character, the population, the territory and the wealth to succeed in establishing an independent economic unit governing one quarter of the earth's surface, and of the world's population which it could maintain upon a higher standard of living than ever known before. Such an Empire would contribute more effectively than any other force to world peace, world progress and world stability.

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CHAPTER VII

POLITICS

I. GREAT BRITAIN

Money
based on
politics.

THERE can be no understanding of monetary or economic problems without a knowledge of political conditions.

A people settled on a territory which they can defend from foreign intrusion can adopt any form of economy they choose within the limits imposed by the resources of Nature amongst which they dwell, and their own capacity for adapting them to their needs.

They may decide upon a low standard of physical comfort such as the Bedouins, who are content with a rough shelter and some pasture for their flocks ; or upon a more arduous and difficult agriculture, by which the same land can be made to yield a far higher standard of living—decent houses, decent clothes, decent food—to a more energetic and intelligent population.

The consideration of money, therefore, in regard to politics is based simply upon these three factors. Firstly, the power to resist invasion and foreign domination, without which no people can occupy any of the more desirable parts of the earth ;

secondly, the resources of Nature and of the population ; thirdly, the power of the population to decide the most convenient form with which to carry on the exchange of goods, services and property.

Money in its essential character is the expression of wealth in terms of time and space. It has no existence of itself, it merely exists as the habits, conveniences and desires of its users cause it to exist. It obeys no natural laws, as people have heretofore supposed, when they mixed up money and treasure, owing to the prevalence of metallic coinage. A period from which we have in truth only emerged since the war.

The reason why money obeys no natural laws of its own is because its operation can always be changed by the fixation or alteration of prices by the collective agency of the people who use it, without reference to any purely monetary tendency. Since the war we have learned that people will use pieces of paper, utterly valueless in themselves, as money by agreed collective custom. These bits of paper have been at times remotely connected with the almost useless metal, gold, by various forms of discreet subterfuge, such as the possibility of only drawing £10,000 at one time, or the previous device of only changing Bank of England notes for gold at the head office after a long lecture on the lack of patriotism in taking gold from the bank.

The fact that these simple devices worked in England showed that nobody really wanted gold very much and that they were quite content to do without it. Also that they were quite content to use as money any bits of paper based on something or other they did not even remotely understand,

Money
obeys no
natural
laws of its
own.

provided that shopkeepers would give them goods in exchange.

This fact was far more remarkably displayed in Germany than in England (where paper money has never collapsed) by the ease with which the valueless paper mark was replaced by the paper Reichsmark. In France, again, the peasant noted for gold hunger accepted the notes issued by the local communes.

Recent
Russian
monetary
experiments.

Far more fundamental, however, are the Russian experiments with money. There they are attempting to avoid many of the currency difficulties discussed in the early chapters of this book by inducing the working man to adopt the cheque system and paying him by cheque on the National Savings Bank. A very sound and practical idea.

It is in this country that one can also best observe the truth of the proposition made above relative to any absolute monetary laws. In his most interesting and estimable book on Soviet Russia, Professor Hoover of the Lake University, U.S.A., says on page 208 :

"This brings up the problem of why the price-level did not rise in proportion to the increase in the quantity of money and bank credit. The answer is that the price-level in the Soviet Union is not affected by changes in the quantity or velocity of money or bank credit in the same degree as in capitalistic countries. Most prices are set by governmental fiat, and all prices are in some degrees regulated by the Government. The regulation of prices is effective as it never could be in our present capitalistic system, since not only the

regulative mechanism is operated by the Government, but the production and distribution of commodities are carried on by organs of Government. As a consequence, it is possible for the Soviet Government to inflate the currency without suffering the immediate results of proportionately increased prices. If an order of the Supreme Economic Council and the Commissariat of Trade sets a price on a ton of pig iron, that price is the price at which a ton of pig iron will be sold, regardless of what the monetary policy of the Government is at the moment. This is not to say that prices in Soviet Russia are wholly unaffected by changes in the quantity and velocity of money and bank credit ; but the effects are indirect and are not immediate. To the quantity theorist this situation savours somewhat of the irresistible force striking the immovable object, but the force of the increase in money and bank credit make themselves felt in a different way from what one is accustomed to in a capitalistic economy. Although prices on the State market cannot be affected directly by monetary inflation, the number of persons who will take a commodity at a given price can be affected, and the number of articles that will be taken at a given price can be also. An increase in emissions of money or of bank credit means an increase in nominal purchasing power, just as it does in capitalistic countries. But in capitalistic countries prices rise, and thus the quantity which buyers stand willing to take becomes equated to the amount sellers stand willing to offer. In the Soviet economy this cannot immediately occur. Prices do not rise, and there is consequently a greater quantity

wanted at the fixed governmental price than can be provided."

The
queue as an
economic
factor.

Professor Hoover goes on to point out that as a result queues of people waiting to buy the limited amount of a commodity at the fixed price come into existence, and also the system of rationing, with all its attendant difficulties. Europe experienced both these phenomena during the last war. They are far from desirable additions to our economic system. But it is open to a population to adopt them if they feel that they constitute lesser evils than those which they suffer under the present system.

In some respects these things make but little difference to the mass of people. English men and women wait in queues for unemployment pay, as the Russians wait for goods. The Germans suffer the same discomforts. Not very serious discomforts when one thinks of the dangers and trials of the war, or of pioneer settlers in an untamed country. The American unemployed, who have no dole, suffer a variety of discomforts according to the system created by the spasmodic local efforts which have been made to meet an unprecedented situation. But in all these devices, the queue plays an essential part ; it is therefore not a thing that can be ignored as an economic or political phenomena in an industrial world, where 20 million people, which means with their families 100 million, are suffering the mental and physical degradation of unemployment.

The un-
employed.

Nothing could worse become the British people than any lack of the realization that the one to three million unemployed who suffer under our

system are the officers and soldiers of England, the youth of England, and the stable, honourable and skilful working men and women of England, who are indeed the citizens of the realm. Their patience, their courage, their intelligence, with manhood suffrage in their hands, should be, and will become, the marvel of history and of the civilized world.

Nobody who is honest with himself can pretend that a system which imposes such hardship amid so much potential wealth, waiting only for development and consumption, is good or right. No one, however satisfied he may be with his personal position and power under the present system, if he does his simple, honest duty to mankind and his countrymen, but will examine the present system with critical eyes and attempt to devise some means, even if it be merely limited to his own sphere of work, whereby a new and better system can be worked out. Any new system must only be adopted with all the caution and wisdom and experience which are necessary before fundamental changes can be attempted which affect the lives of 45 millions of people.

The evil of unemployment has been with us so long and seems to be so insuperable that people are bored with it and wish to ignore and forget it. Yet we must realize what it means to be a human being upon this earth with hopes, desires, passions, feelings, and to realize that one is not wanted. There is no place for one. Not even in the humblest capacity. For a young man it is devastating; for a soldier it is cruel; to a man of middle age, with a record of loyal service, a family to maintain, a just

pride in his skill, loyalty and uprightness, it is utterly crushing.

National
leadership
necessary.

It is through politics and politics alone that this evil can be remedied. Not through the finicky, meagre, compromise-mongering which has characterized the politics of the past decade, but by a united, bold, collective and inspired national effort towards which the Sovereign and his people in 1931 gave the political magnates of all parties such a lead.

The exact direction of such an effort cannot be discussed at length here, but it is interesting to note that the idea has already germinated in several parts of England.

Mr. Lloyd George's book and election campaign, *We Can Conquer Unemployment*, was based on the idea of a collective national effort. The details were unsound industrially, politically and financially, because they had been worked out by people who did not understand their jobs. Also, the whole scheme was prejudiced because it appeared as a vote-catching, electioneering stunt, and promised to do in one year that for which at least five years was required, but the fundamental notion was sound, and perhaps only a man of Mr. Lloyd George's executive genius could have carried it into effect. Mr. J. H. Thomas had something of the same sort of notion in his first speech on unemployment in the last Labour Ministry, but the Treasury soon prevented him getting very far. Sir Oswald Mosley has put forward ideas of a similar character, but with him, the conception of the spirit necessary to achieve the object is more clearly in mind than the technical methods by which the results may be obtained.

True, he proposed simplifying the methods of Government and modifying the dead hand of Treasury control, much as my father did, and those things will all have to be done. Treasury control has grown up on two bases. Firstly, the elimination of corruption ; secondly, the elimination of extravagance—both vital and essential functions in both the old and the new world. The dead hand of the Treasury.

But it has gone much further than this. Treasury officials are now installed in every department. No estimates can go forward without their sanction. In fact, the Treasury controls Government policy through the method of so hindering the action of the Ministry in a thousand details, that they become impotent. The Treasury also works very closely with the Bank of England, and between the two they can bring a pretty heavy squeeze on the Chancellor of the Exchequer.

Now in theory a popularly elected Government based on manhood franchise should be able to get its own way with a parliamentary majority to back it up. But let us examine the structure of this god with feet of clay.

First, the permanent officials of the Treasury have no interest in taking risks. They are not thinking of the Government in power but of the next Government. Their policy always approximates to an average of all Governments, which means no decisive policy. They know it is very bad to have extreme changes, so that their tendency is to moderate anything they consider too definite into a general beneficent indefiniteness. Not that they are in any way disloyal to their chiefs. On the contrary, there could be no more loyal and

devoted set of men. But they are usually far more brilliant and knowledgeable than their Ministers, and have also their own loyalty to their country, their intellects and their consciences. Unfortunately, they have no experience of life outside the Civil Service. They have never had to produce a profit-and-loss account. Their firm can never be put into liquidation. As a result, their tendency is such as one would expect under such conditions. Moderation, continuity, absence of vigorous action on novel lines.

The position
of the
Minister
of the
Crown.

Next, we have the Ministers to consider. Each has, first of all, his personal difficulties. He does not know his job. He has a new department, and he has to learn it. He has plenty of people both on his own side and the other side of the House of Commons to ridicule and criticize his efforts. He has also his Cabinet colleagues. They are all busy with something or other and are not at all anxious for any one of their number to get himself and themselves into trouble with the House, the country or the Press. If you do anything in the world you are sure to annoy some one, who will make a row. Those whom you please will not be particularly gratified. It is the way of the world. It is much easier to get into trouble than to get applause. It is much easier to get on by looking wise, talking well and pleasantly with due regard to the feelings of others, than by doing things, some of which are bound to fail.

The Minister also has his own constituents to think about, as well as those of the other supporters of the Government. If he has some constructive plan, it is sure to annoy some of them. They will

make a row with their members, and the Minister will get a deputation of members asking him to do something else. The Chief Whip will say to him, "Must you really upset Mr. Snooks and his friends just when I had got them right on this other question, on which they were going to lead fifty men against the Government?" And so on. It is far safer, and infinitely more pleasant, to follow the advice of your Civil Servants, have your Department solidly behind you, make good parliamentary speeches, full of bright, light humour and wise sayings, with pleasant compliments to your colleagues and the House, and not to try to do too much. Then you will get promotion and a reputation for wisdom and moderation. A sound man. No new fanciful ideas. Prepared to uphold the Bunk of Ages with the Jest of the Moment. All much better than fighting some new idea through with the hard facts, truth and the lonely bitter courage necessary for those who would see their inspiration take flesh and live.

One recalls the story of Wilberforce, an old, broken man sitting in the House of Commons with the tears streaming down his face, his head bowed, his whole body trembling with emotion while the institution, that had abused, maligned and persecuted him for fifty years, poured out the magic of its adulatory oratory upon him. Fifty years before he and Pitt had lain in the shade of a great oak one hot summer afternoon, and Pitt encouraged him to take up the case of slavery. For fifty years he had sacrificed honour, happiness, promotion, position, wealth, even his family. But he won.

The
private
member.

There are not many Members of Parliament who are prepared to face the ordeal, or who have the fire in their belly which can burn with so much heat. Two or three rebuffs from the Whips, and a sharp rebuke from the front bench, the derision and boredom of the House, soon sends most of them back to a comfortable chair and a cocktail, and the pleasant and knowledgeable banter of the smoke-room.

The back-bench member of the House has to fight hard for his constituency nowadays. The opening of bazaars, a good division list, a few pleasant speeches in the Chamber on matters affecting local interests, some hard work on the details of a Bill in committee upstairs and, above all, a well-organized scheme of answering letters and remembering the names and faces of 200 or 300 of his 50,000 or 60,000 voters, are more important to him than sitting up at night reading up very modern economics, or studying abstruse industrial or current scientific questions.

Defects in
the British
electoral
system.

No one can pretend that the English electoral system has worked very well since the war. Since 1918 I have taken part personally in seven elections in four different constituencies—the 1923, 1924 and 1929 General Elections, one by-election for myself, the 1921 and 1922 General Elections with my father, and a by-election for him in 1923. In the seven campaigns there was only one defeat, and I have spoken for other people from one end of the country to the other, so I feel I can speak of the subject with some experience. The English selection of candidates is haphazard and whimsical. Everyone knows it. Over and over again the best

man is not selected, either because he does not know the committee or because he cannot afford to fight an election. People continually ask why do not party headquarters select better men and pay their expenses. But local organizations resist such pressure. Many local bodies like rich members who will spend some money in the division, others find the money for their candidates' election expenses and to help them afterwards. The recent events in the Marylebone by-election of April 1932 are a case in point. Mr. Cunningham Reid had the official local nomination, Sir Basil Blackett was put forward by the party, and many distinguished Conservative leaders supported him. The actual party chiefs adopted their usual bold and dashing attitude, and fulfilled their duties of leadership by remaining like Achilles in their tents and saying nothing. Mr. Cunningham Reid won in fair fight. We are not here concerned with the merits of either candidate or the justice of either cause. It must suffice to observe that Sir Basil Blackett has a great experience of finance and currency, the burning questions of the hour. Things would have been differently managed under the Italian system. (See page 175 *et seq.*)

The Labour Party have many ways of selecting their candidates, from the prescriptive right of nomination which some Trades Unions claim over certain seats and the hereditary rights which Labour leaders claim for the installation of their progeny in other seats, to the haphazard methods described above. They also have great electoral advantages in other directions upon which much of their power was based, apart from the great moral appeal which the party undoubtedly made. They have the three

great voluntary canvassing forces of the country free at their command. First, the Trade Union organizations which visit the voters in their houses or at their work continually ; secondly, the co-operative organizations whose canvassers continually visit their homes ; thirdly, the insurance agents who visit a large proportion of homes weekly. The greater part of these three groups are active Socialist canvassers. If the Conservative or the Liberal parties had the money to spend to create such a force, it would immensely strengthen their position. Neither party has the funds. As against that, however, both Mr. Lloyd George, on a vast scale but ineffectively, and Lord Beaverbrook, on a smaller scale but effectively, have started and paid for private parties of their own, and so could any rich man.

I have often thought that many a rich man could keep a private political party of his own if he gave up his yacht and his racing stables.

The true protection against those practices is the common sense of the British people, but even they have become more and more disgusted with politics. Now, true to their tradition, they have elected a National Government in order to avoid the dust of party turmoil.

The result is that in the past ten years the House of Commons has been the worst place in the world to carry on an economic discussion or to debate industrial affairs—the two vital questions by which the British people live. A discussion on Sunday cinemas got a full house, a debate on unemployment an empty one. The rules of the House are such that a debate on unemployment usually rules

out the discussion of currency questions. Over and over again I have heard members say that it is like discussing *Hamlet* without the Prince of Denmark. But no leader of either party has come forward and supported an appeal to the Speaker to amend his ruling so that an intelligent discussion would take place. Our political leaders rather naturally prefer to stifle discussion on subjects they do not understand.

On industrial questions the Trade Unionist Labour members always contributed a great deal of knowledge, and have put forward the vital straightforward point of view of the British workman in a most valuable way. But their economics were mostly limited to a few clichés of early post-Marxian Socialism.

In 1906 the House of Commons had a large number of leading industrialists in its ranks, many of whom continued there until the war or even later. But these have almost all gone up to the House of Lords, which has, strangely enough, become rather an industrial stronghold. They have not really been replaced in the Commons, and in any case the problem has moved on to a large extent from industry to economics and currency.

Mr. Winston Churchill recognized this when, in the Romanes Lecture at Oxford on June 19, 1930, he urged that Parliament would be well advised to create a body subordinate to itself in the form of an economic sub-Parliament. More specifically, giving evidence before the Select Committee on Parliamentary Procedure on June 15, 1931, he said : "Parliament would be well advised to create a new assembly, subordinate to itself, free from organized

The inadequacy of present parliamentary system.

party exigencies, detached from public opinion, and composed of persons possessing special qualifications in economic and commercial matters." He was right. But the idea is not altogether novel. We can turn to both Italy and Russia, the extremes of the Proletarian and Bourgeois revolutions, and see the progress that revolution, dictatorial power and the creative spirit have brought about.

Of our own parliamentary institution we can be certain that it requires drastic reform. The legislative and executive functions have become sadly muddled. The machine has become choked with cobwebs and blunders along where it should work smoothly. Now there is talk of the Reform of the House of Lords, based on the old idea of party rule. What is wanted is not so much the reform of the House of Lords, which on the whole does its work smoothly, quickly and efficiently, but the reform of the House of Commons, which by its party system, its membership and tradition, is now only about 35 per cent. efficient.

The first time I met Signor Mussolini we were discussing this very problem when suddenly he jumped up with that radiant expression that makes him so different from ordinary men, and which seems to emanate from his whole being as much as from his face alone, and said, "In the old days when things moved slowly and science was backward, the party system was good for Parliamentary Government, particularly for the English, who alone know how to make it work well. But nowadays when the velocity of life is faster, when everything must go—so" (here he employed a gesture of rubbing his two flat palms over each other with an inex-

pressible impression of smooth, well-modulated celerity), "there is no time for it : the Party system was based on friction. The modern world is based on efficient lubrication."

II. ITALY

No one has a greater right to speak on this subject than the head of the Italian Government. In ten years he has transformed Italy, politically and spiritually. He has completed the work undertaken by Cavour and Garibaldi of creating a free Italian nation. Many people forget that Italy was not freed from the Austrian, French and Papal domination until 1870. Even after this no real nation was created. The warring elements of Italian life struggled along until 1914. After that, economic conditions were bad, the political system of Parliamentary Party Government impotent.

A communist revolution of the worst and most dangerous type broke out in the north and was growing unchecked. Mussolini rallied the educated decent-living forces of Italy, called them to arms and restored order from chaos. The men who had banded together to save their country from ruin called themselves Fascisti. They realized that it was not enough to arrest a collapse ; to restore order from chaos. The chaos had arisen from definite causes. Those causes must be removed. They were the psychology and insubordination of the Italian people and the economic disorganization of the country. They formed themselves into a party of some 400,000 armed men for the control and development of the State. They admitted only

The origin
of Fascismo.

into their ranks those who had passed as boys and youths through a period of probation and training. At eighteen years of age they are, if deemed satisfactory, enlisted in the party ranks. They are given a book in which is written their creed, and a rifle with which to defend it.

The present
Italian
electoral
system.

In spite of all this a certain measure of democracy has been restored to the people. They are presented with a list of parliamentary deputies selected by the Fascist Council. This list has been made up by the various corporations, cities and institutions who have been granted the right of nomination by Royal Charter. They can submit whom they choose, but they must submit two names for every vacancy. The Fascist Council then selects one of the two for submission to the electorate in their list. The people then vote on the basis of a wide franchise on the following basis :

The vote, under Articles 6 and 9, is conferred on Italian citizens who are 21 years of age, or who, being minors, are over 18 and married and have children, provided that they

- (a) pay a contribution to a syndicate, . . . or
- (b) pay at least 100 lire in State or local taxes, or have for at least one year owned State or local bonds bringing in 500 liras ; or
- (c) Draw a salary or pension from the State or a local body ; or
- (d) are members of the Catholic clergy, secular or regular, or are ministers of another admitted denomination.

The whole Kingdom forms but one constituency for the 400 names put forward, among which the Council have the right to include men of great

distinction who have not cared to submit themselves to the system of nomination by the usual means. The voters must vote for or against the whole list.

If the list is rejected by the Nation, then another election must be held upon a freer basis, so that the position is that the people have a clear and distinct opportunity of demonstrating their displeasure and jeopardizing the moral sanction of the Fascist regime, without the power of continually destroying Governments who are doing good work because someone else promises them more. There is no opportunity for mass corruption of the electorate with doles or widows' pensions, such as we have experienced in England in the last decade.

Signor Rocco, in his chapter on the Transformation of the State in *What is Fascism, and Why?* wrote :

"In the Anglo-Saxon countries, and also in France, there is a great national tradition, and the idea of the State has been fortified by centuries of struggle maintained by the State to affirm its own supremacy. Besides, in England the individualistic and disintegratory spirit of Germanism is counteracted by a rigorous moral education, so that the individual, while theoretically maintaining perfect liberty in the face of the State, knows of himself how to keep it within limits. All these conditions are lacking in Italy. The old Roman tradition, splendidly renovated by the Catholic Church, was certainly inspired originally by discipline, by the subordination of single individuals to the State ; but it was a tradition now distant, profoundly modified by the disintegrating influences of Germanism, medieval anarchy and foreign rule ;

The break-down of Italian democracy and the theory of national unity of purpose.

this latter, above all, made the State appear for centuries as the instrument of foreign oppression, and in the mass of the Italians gave rise to a profound spirit of distrust and of revolt against public authority.

“The dogma of popular sovereignty in electoral matters ended thus by resolving itself into the dogma of the sovereignty of small minorities composed of intriguers and demagogues.”

This gives very clearly the differences in the problem confronting the two countries, and also shows how wrong it is to judge Fascism by our standards.

Again Signor Rocco says :

“Liberal ideas are all derived from the doctrines of an exotic philosophy, individualistic doctrines which regarded the individual as the ultimate end of society, and society simply as the aggregate of the individuals of a given generation, without any aims of its own but those of the individuals which compose it. Thus the State could have no other essential function save that of co-ordinating the will of its members so as to prevent the liberty of one from encroaching upon that of another. This lack of an entity, an ideal, a will of its own, was, therefore, the characteristic of the liberal and negative State, which was thus incapable of controlling the real forces existing in the nation ; these forces therefore organized themselves, lived and prospered outside the State, and ended by mastering it.”

The theory
of the
limitation
of com-
petition.

Apart from the novel electoral laws, the principal innovation which the Fascisti have introduced into Italian life is the Syndicalist system. The ideas lying behind this movement are that each main

group of activity within the State, the production of metal goods, farming, the production of motor-cars, the profession of the law or of medicine, is formed into a syndicate that represents all the National interests, labour, management and capital within that group. They must settle their own affairs subject to general supervision and control of the State.

Thus last year the industrialists and agriculturalists of Italy had a round-table conference on the conflict of interest existing between the two branches of national activity, and made some interesting suggestions as to how to overcome some of them. They did not, and could hardly be expected to find a complete solution to this world-wide and age-old problem, but they tackled it in a most rational way, and on a high plane.

The Syndicate is the true synthesis of that group of national activity of which it is composed. It exercises the duties of the guardianship of the moral and economic interests of the group and its functions of representation. It has the power to levy contributions on its members, and is responsible for their national education. Its duties are mainly twofold, the well-being of the group itself and its contribution to the maximum national development.

The Fascist State admits competition and bargaining, but insists on controlling it to within those limits which prevent national injury occurring from sectional strife. The Syndicates are themselves organized into federations and confederations of employers and workers, which co-operate with other

categories of producers to subordinate the desires of each to the well-being of the nation as a whole.

The co-ordination of capital and labour.

Based on the same principle there exists machinery for the compulsory settlements of disputes between capital and labour, by means of a specially appointed Magistracy of Labour ; but in addition to this, excellent conciliation machinery exists, and in practice is usually effective.

The idea in the last paragraph reminds me very much of the discussions of the Melchett-Turner conference. They did not get so far as to make a recommendation so strong as this, but there were many on both sides of the table whose ideas had already proceeded thus far.

Nothing has marred English industrial life more than the strikes and lock-outs of the last decade. They settle nothing. They impoverish everyone connected with the industry. The workers lost millions in wages, and got into debt for the very necessities of life. Their sufferings and those of their families have left a bitterness behind that will take years to eradicate. Shopkeepers in such times do badly, and this reacts on other workers and employers and shareholders, producing a general impoverishment. Employers lose money, get into a weak financial position, which does not kill them as the communists hope, but only weakens their competitive power and their desire and ability to give better conditions to their men. The situation has raised up a new professional class of Trade Unionists on one side, and Labour managers on the other, who have a technique and a language of their own, and who can complicate simple human

problems with as many precedents, inferences, doubts and dangers as a court of law.

As a result, British workmen and British employers who, on the whole, are simple, straightforward honourable people, rarely speak direct to each other. They are separated by a class of professional men whose interest it is, well intentioned as they are, and excellent as their work for peace has been, always to have a lot of trouble impending. Of course, the justification for this procedure is that employers and workmen are such idiots that they cannot understand each other and quarrel when they meet direct.

Fortunately this is not altogether true. There are plenty of stupid people in the world, but they must get together and understand each other. The present methods tend to divide employer and employed, and on big questions of national interest, constitute a grave danger to the realm.

If every dispute which has led to a strike or lock-out in the last ten years had been settled perforce, the British people would be richer and happier. In point of fact, if both sides know that a judicial body is going to settle something anyway, and that the Government will use *all* its resources without fear or stint to enforce the decision, people would find a basis of agreement among themselves.

In Italy the whole machine is kept in step by a National Council of Corporations, which co-ordinates the activities of its member bodies. Each corporation which is a State body co-ordinates the activities of the syndicates which compose it. Signor Boltai, Minister of Fascist Co-operation,

The theory
of national
co-ordina-
tion.

says in discussing the powers of the National Council :

“ These faculties can be exercised only after the decisions of the syndicalist associations which express the will of the producer,¹ and thus are not the expression of a coercive will of the Council. Thus a real economic self-discipline under the laws of the State is attained ; the individual interest operates through the will of the professional associations, the interest of the professional associations through the corporations, the interest of the corporations through the Council. Here is, in fact, an economic hierarchy by means of which every desire is realized through the one immediately above it. This organization is that which responds most perfectly to modern tendencies in economic matters. The Fascist State does not intervene in business matters, but co-ordinates them on common lines. And it is a conception that reverses the ideas of socialist theory and at the same time transcends those of the liberal system.

“ In conclusion : the Fascist State may be defined as a State of syndicalist composition and corporative function, since, as a truly sovereign State, it seeks to be adequate to the civil society which makes up its structure, and as a State with aims of its own, distinct from those of civil society, it has as its permanent object, to create, by means of its own action, and to achieve the moral, political and economic unity of the Italian nation.”

There are over 10 million Italians who are members of the various institutions, even though they are not members of the Fascist party as such.

¹ This word here means Labour, Management and Capital.

It is an enormous proportion of the population, and each institution is inspired by the ideal of fulfilling its structure, and as a State with aims of its own members and to the State as a whole.

One great advantage of this type of organization is that it causes these functions to be clearly delimited and understood, because it is definitely the business of certain people to think of them, and to be able to answer for them if asked the question. Most of us have this ideal in a vague way, but we do not think collectively and precisely about it, because we do not have to.

Again Signor Rocco says :

“The State performs its own function and its own mission in every field of social life, directing, encouraging and harmonizing all the forces of the nation. This co-ordination raises the national energies to their highest potentiality, directing them effectively to secure their own ends, in the interests of national prosperity.”

Here we see a new political construction based upon the unity of a nation, and a Government which desires to develop the State in a planned and well-organized unit to achieve the greatest potential development of its population and territory. The object has been to create a State to satisfy all exigencies of modern life.

It raises many questions which it would take too much space to discuss here, but it is certainly an advance in certain directions, and an interesting experiment in all directions in the science of Government ; and above all in the science of human social organization. The liberty of the individual is precious ; but it is not, and never has been, as

An advance
in the
science of
Government.

precious as the life of the nation. There is nothing either valuable or noble in the power of an Englishman to build a factory, to employ, say, 200 men, in a place where there are no housing facilities, and to leave it to speculative firms of builders to put up slums to meet the demand. Yet that is how the slums, which are such a blot on the honour and the justice of English life, arose. Nowadays both landlords and industrialists and, above all, local authorities have more conscience, and a great deal of progress has been made. Yet this again is delayed at times by the not unnatural extravagance of Socialists on these bodies who go too fast for present-day finance.

England will eventually be forced to adopt some means or other of co-ordinating her national activities, and creating and controlling a national unity of purpose and direction which will give every individual his place in the national "team." Every Englishman knows what happens to a tug-of-war team of huge individuals who pull separately and spasmodically against a team of smaller men who will pull together.

III. RUSSIA

Russia
started from
extreme
backward
condition.

If we turn to the other great collective effort of recent years in Russia, we see a very different picture. There the situation was complicated by the extreme backwardness of the country, both in regard to the ruling and the subject classes. The upper and lower classes, neither of them attuned to any forward movement, were separated by a class of bureaucrats who were almost more static

than either. Here, again, the dynamic force originated from the Bolsheviks, which means in Russian "Minority," led by the outstanding figure of Lenin. His ideas were very different from those of Mussolini. He was not afraid to destroy. In fact, he believed that he must raze the Augean stables to the ground and even dig new foundations before he could build his ideal social structure.

He was determined to achieve a large measure of human equality. He was convinced that much of the evil in man is due to the passion of great hate and jealousy aroused by the wide differences that exist in the standards of living of different individuals. When a foreigner told him that the Russian people were worse off since the Revolution than they were before, he boasted, "Yes, I know; but we have no rich."

Lenin
desired to
modify
inequalities.

He believed it was necessary not only to destroy the aristocracy but also the professional and intellectual classes. The clerks, the writers, the engineers, the bankers, all must go and be replaced by men from the people, who would in time acquire the knowledge and experience to do their jobs properly. But it would be knowledge acquired on a communistic basis. He would never make the fatal mistake of placing his movement in the hands of an anti-communist intelligentsia on whom the whole State would be dependent. Of course this process must take time, so a certain proportion of the intelligentsia were maintained, as were also the private trader under the new economic policy, when the first attempt of the proletariat to take over and run the means of production and distribution had lamentably failed.

The de-
termination
to create
a com-
munist
intelligentsia.

The Bolsheviks were not daunted by this first failure. They went on. They gave the Nepmen (new economic policy men, *i.e.* private traders) and the technicians the opportunity to make a living, and at the same time commenced a campaign of oppression and scorn against them that could grow in intensity to the point of complete boycott, as and when these classes of individual could be dispensed with by the rising proletarian population. It is all very Slavonic, cruel and revolting, but they justly point out that the war and the slumps of the capitalist world are cruel and revolting, and that while these are the mere antiquated blunders of statesmen, and result in the people being impregnated with moral, political and economic falsehood, their cruelty does result in the impregnation of what they believe to be truth and justice.

The
difficulties
of the
Russian
Govern-
ment.

It all seems very odd and dreadful from the solid safety and seclusion of England, and is very alarming from any country in the world, but I think the best picture of the real position in a few sentences was given by Mr. Bernard Shaw in an article written after his recent visit. He described how he went to a Russian village. The road was not existent except as a sea of mud and holes. The shacks of the peasants stood about at odd angles to it, with no system of arrangement. Sanitation was there none. The wooden shacks consisted of one room. Inside was a stove. Also a large cupboard in the corner, in which was a pile of rags or straw or mattresses, making the bed in which the whole family slept together. The middle of the room was kept as clear as possible, because all

the live stock of the peasant have to inhabit it as their only shelter.

Into this welter of filth and degradation the Bolsheviks are trying to bring light. When one looks at the size of Russia on the map, one thinks of the antiquity and depths of the prejudices, religious superstitions and ignorance that confront them; one is staggered at their courage. They build concrete barracks, with a reasonable attempt to provide the necessities of elementary cleanliness for the whole village. They introduce the tractor and mechanical methods of cultivation. The old peasants have long beards which are the habitation of the dirt of ages. They kneel down and kiss the hand of anyone whom they conceive to be their master or superior. The young peasants are shaved, clean, healthy. They are vigorous and incline to be inspired with a new ideal which they but faintly understand.

For it they suffer privations. Yet the agricultural production of Russia is still far below pre-war.

Mikoyan, People's Commissar for Trade, in a statement printed in *Economic Life*, founded his financial hope chiefly on increasing exports. In 1925 this was 42.7 per cent. of the pre-war Russian exports, and by 1928, with tremendous effort, had climbed to 59.2 per cent. The meagre surplus of grain *per capita* produced by the peasant population bore importantly on the outlook for early resumption of grain export, the old régime's heavy reliance. A report made to the Communist Academy, as published in *Pravda*, indicated such surplus at the outset of the twentieth century to be

about 300 kilograms *per capita* in Russia, in comparison with 450 kilograms in Germany, 900 in Denmark, and 1000 in the United States.

The
necessity
for the
five-year
plan.

The peasants revolt, the system breaks down, the local rulers become corrupt. But the Bolsheviks try again and again. Industrially they have equally difficult problems to contend with, but they have had the courage to devise a five-year plan, to develop the resources of their territory and population from one of the lowest standards of development to one more compatible with the material resources of their country.

They will fail. They have failed. But the five-year plan will be followed by a ten-year plan, and they will succeed in creating a vast improvement in their standard of living. They will increase their real wealth.

The
organiza-
tion of
industry.

On paper the State has been planned into a co-ordinated whole, in which private property is almost abolished and privacy itself discouraged. The structure of the State organization, according to Mr. E. T. Colton in his book, the *XYZ of Communism*, is as follows :

"In theory the edifice of Soviet Industry is impressive. The Supreme Council of National Economy, the Department of State for Agriculture, the Department of State for Finance, the Department of Ways and Means of Communication, the Department of Post and Telegraph and the Department of Foreign Trade, each submits the draft of its programme to a State-Planning Commission, the super-planning organ of the Soviet Union. The drafts are reconstructed by the State-Planning Commission and authorized, in principle co-

ordinated to prevent interference one with the other and to secure perfect interaction between all parts of the total Economy."

The work which the five-year plan set out to achieve was no less impressive. In June 1930, a plant in Stalingrad was opened to produce 50,000 tractors a year and 3500 for the month of June. The official Press admitted that for that month only 8 machines were completed, and from July 1 to August 25 none.¹ In time no doubt the plant will achieve a certain efficiency. There are huge hydro-electric plants completed and completing, steel works and other forms of industrial equipment.

In the economic and industrial field the world has to recognize that it is facing a determined rational effort made by a vast population inhabiting a huge and rich territory. The population may be ignorant and incompetent by nature, but they will achieve a great deal. The paper, *Economic Life*, sponsors the information that in 1927-28 the difference between the level of industrial and agri-

They will succeed in improving general conditions.

¹ This point of view is borne out by the fact that at the recent Conference of the British Association, after the Presidential Address, Mr. A. P. M. Fleming, of Metropolitan-Vickers, said that Dr. Miles Walker's proposals suggested the desirability of considering what bearing the huge experiment at present conducted in Soviet Russia had on world economic conditions. They had made mistakes in Russia, but was not our own industrial history strewn with mistakes? The whole thing had been carefully planned and was assisted by the enthusiasm of the people. They were making liberal use of scientific research, more particularly in regard to applied science for industry. Moreover, Sir T. Hudson Beare, of Edinburgh, after referring to the extraordinary difficulty of getting the truth about Russia, said that whatever mistakes they had made, it could not be denied that immense development and progress had been achieved. They could not escape the fact that Russia was not going to be a producer of primary products for home consumption alone. She would become a great exporting nation. (*Manchester Guardian*, Sept. 3rd 1932).

cultural prices was 127 per cent., which meant that the peasants overpaid from 300 to 400 million roubles in buying industrial goods at the price fixed by the Government. In 1928-29 the Government was forced to increase grain prices by the peasants flatly refusing to sell to the collection agents. The increase left the difference between the industrial and agricultural price-levels at 110 per cent.

This cannot last, and the Russians know it. They will in due course take the necessary steps to correct it. Trotsky once said, "We are acquainted with the fundamental laws of history; victory belongs to that system which provides society with the higher economic plans."

The detailed organization of this vast country is almost on the same lines as a giant scheme of industrial rationalization. Professor Calvin Hoover sets this out very clearly in his study of the economic life of Soviet Russia :¹

"While the Supreme Economic Council represents the control of the State over industry, a large degree of autonomy remains to the lower stages of the industrial hierarchy. To the Combination is left a great amount of freedom as, for example, in making contracts for the sale of its products and for the purchase of raw materials. The Trusts may in turn make purchases of minor supplies and miscellaneous articles without consulting the Combination, while the factories may hire and discharge workers without consulting the Trust.

¹ *The Economic Life of Soviet Russia.* I have chosen particularly to quote from this study because, after having read not only from the official Russian literature but also a mass of material attacking the Soviet system, I was tremendously impressed with its impartiality.

"The tendency during the last few years, however, has been for most of the factories to become organized into Trusts, and the Trusts to become organized into Syndicates.

"In some industries, instead of a Syndicate a Convention was formed. The Convention was a much more informal and temporary organization than the Syndicate. It had no separate capital and no separate balance sheet, and resembled in some ways the trade association in the United States. It was primarily a sort of standing committee composed of representatives of the different Trusts of the industry, which prevented or conciliated the conflicting commercial interests of the Trusts."

It must no longer be imagined that industry is ^{Politics and} allowed to be controlled by the Communist party ^{industry.} cells which exist amongst the workers in every factory. The whole tendency lately has been towards adequate and authoritative management, and now that the manager is himself in nearly all cases a communist, the likelihood of conflict is diminishing. The party itself issued an order in 1929 insisting on single control in industry. The party cell in the factory has ceased to have executive significance and has become more like the Fascists in the Italian factory or even the Trade Union Socialist in our own.

The Communists have no illusion about the difficulty of their task or its magnitude. The question as to whether they can be sufficiently efficient to compete with the industrial world does not yet arise. They are still in the grip of the fresh excitement of making things never before

made in their country, and making at first only a few, then many, then cheaply and then learning to sell them abroad. In view of their excessively low labour costs, they are in some cases in a highly competitive position, but for the moment the question of obtaining foreign exchange in return for national resources is more important to them than profit.

The
significance
of Russian
financial
emancipa-
tion.

They have not allowed themselves to become the slaves of currency. Indeed, they seem in some measure to have mastered it. They do not disregard money as a measuring stick, but they have not turned their measuring stick into a rod for their backs as we have.

This shows a clear concept of their problem. It is obvious that if losses are made for the first five years and profits for the next fifty, they are on a sound basis. It is difficult to see how they can fail to make profits starting from such a low level. In their own semi-official publication, *Moscow has a Plan*, they say on page 144 :

“ Instead of deriving ammonia from coke gases we burn them in furnaces. Instead of making sulphuric acid from the sulphuric gas generated in our copper blast furnaces, we permit it to escape into the air and poison the surrounding country. Sulphuric acid we need badly for many forms of production. We have billions of tons of phosphorus, the very largest beds of calcium in the world, and yet our fields starve, and the peasants do not even know what phosphorus and calcium are. We lack factories for making artificial silk, artificial wool, artificial leather. We have insufficient paper for books and newspapers. And

in order to make all of these things we need no special kind of raw materials, but merely the wood which we have in great abundance."

But it is in the technique they have developed for handling their financial affairs, a technique which has grown out of the simple problem of applying their brains and muscles to their country in a condition of financial isolation, and without any of the complications of foreign exchange and foreign banking, that the Communists show signs of making an advance which may place them in a dominant position in the human race. They have one inestimable advantage over all other people—an advantage to which all the Communist leaders from Lenin onwards have attached the utmost importance. There is no intellectual dead wood in Russia. All ideas are practical and modern, based upon the application of modern thought to modern problems, not on the habits and ideas of the past. They have no traditions to hold them back, no vested interests.

Complete
absence of
vested
interest.

Everyone who has industrial experience knows the desire of the modern technician to build a new plant on a green field rather than to attempt to reconstruct an old one, using up as much of the old plant as necessary. It is not only usually cheaper, but it allows full range of inspiration to the creators. The limitations imposed by making use of this and that may not appear to be very important in detail. In the mass, however, they constitute an overpowering influence, leading away from creative inspiration to mere routine construction—from the brilliant and first-rate to the dull and second-rate. They do not lead on to the next

new idea round the corner of the mind, they lead away to illogical makeshifts that destroy the sequence of creative thought.

It is pitiable, in this respect, that Russia has ordered in England and is building the finest and most modern tube mill in the world, to be erected in Russia, and that it is being financed (under the old scheme of export credits) by the British Government. Britain needs this tube mill. But our political organization is so little able to fulfil the needs of the country by direct methods, that our money is being used to build it in Russia. This absurdity could never have been tolerated under either the Italian or Russian systems.

It is not a question of money or of credit or of capital. The Russians are merely taking advantage of our antiquated financial conceptions in order to be one tube mill better off. It is necessary for them to have our credit in order to meet their foreign exchange difficulties owing to their lack, at present, of exports. They are, in truth, not short of capital except on paper. They have the vast resources of their country behind them. That is real capital. In Russia industry and banking are rightly conceived to be parts of the same jobs of production and distribution. The productive effort of the country is divided into about twenty-six major groups, the banking system into about seven.

There is the Government Bank which is the co-ordinating centre and the sole source of the issue of currency. There is a bank for long-distance finance of industry, which makes loans up to forty years for long-range industrial production. All industries must allocate 25 per cent. of their

Soviet
banking
system.

profits to this bank for obsolescence and maintenance.¹

The interest which it charges on the loans it makes depends upon the profits made by the industry which is borrowing, or, to be nearer the truth, which is being financed by this method. The oil and textile industries, for instance, pay 6 per cent. ; the metallurgical and the coal industries, 2 per cent.

The Prombank is not only a means of distributing permanent capital sums from the budget and a source of temporary finance for industry, but in addition acts as a means of financial control of the industries themselves. It has special accounting branches for different industries, and departments to plan ahead the financial requirements of the metallurgical, fuel, chemical, electrical, timber and other industries, and a department for industries of local significance.

There is the Vsekobank for co-operative societies, which handles the finance of this important branch of Soviet economy. There is an agricultural bank which provides for the needs of that industry ; a central municipal bank that handles the finance of municipalities and controls their development and expenditure ; a savings bank which is being made the workman's bank, and through which they are limiting their currency difficulties by paying him by cheque ; and there is a bank for foreign trade.

The banks really act as accountants and financial controllers for industry. The Supreme Economic

National
rationaliza-
tion.

¹ There is nothing very startling in the size of this allocation. In England in taxation alone 25 per cent. is deducted from all industrial profits, even sums placed to reserve being subject to this deduction.

Council, with all the facts before it, plans out the production, cost, profit, new construction and the domestic and foreign sales of each industry. The bank provides or receives the funds for this industrial budget and exercises financial control. The system is in type identical with those in vogue for large rationalized industries throughout the world, only it is applied to a vast country instead of a single industry. Money plays its true part as a mere conventional medium of exchange. Inter-industrial exchanges of goods are paid for by book entries at conventional prices as they are in rationalized firms in capitalistic countries. A good deal of the pay of the workers is given in kind. The country is isolated financially, and in this position is able to go ahead and create a medium of exchange to suit the economic facts of its existence instead of being held up, as in the capitalistic world, where the medium of exchange is the master, and economic facts count for nothing.

As regards gold they seem to have adopted a system not unlike that which I suggested at the beginning of this book for foreign exchange currency. I quote it in Professor Hoover's own words so that the reader may judge for himself.

"It may be questioned why any gold reserve is maintained at all, since the currency is not redeemable in gold, and it is not planned that this shall ever be done. Soviet officials explain this by saying that the gold reserve acts as a fund for manœuvre, so that they may use it to pay for urgently needed imports whenever it is found impossible to obtain enough credits abroad to offset a temporary deficiency in their inter-nation trade

balance. At more favourable times it can be built up by means of realizing net balances from trade, or from credits which have been arranged. It is undoubtedly true that a gold reserve is necessary for this reason if for no other, although it serves a somewhat different purpose than is usually true of reserve in other countries."

The most important departure is their concept of the purpose and possibilities of money, which will so free them from the shackles in which the capitalistic world is now floundering, that unless we pull ourselves together, they will dominate the world position.

But an examination of their system gives a good picture of what could be brought about in the capitalist world as a result of the simple reforms of the Currency System and the establishment of a National Discount Corporation which I put forward in Chapter III.

The Communists are determined that monetary considerations shall not limit the industrialization and socialization of the country. They realize that trade cycles, panics and credit stringencies are bound to afflict a capitalistic economy. They believe that their system can free them from these evils. They recognize nothing but the physical limits to their programme. Iron and coal lie far apart in the Soviet Union. Therefore, it is necessary to burn peat in some plants. This necessitates a high cost of production which constitutes a physical limitation, and can only be remedied by physical means.

The planning organs proceed upon the assumption that the necessary money will be provided for

Currency
rationaliza-
tion.

any project, if the physical factors essential to its success exist in the country. The Communists know that in the past inflation has always been followed by economic disaster. But their new issues of money are used for productive purposes, not for balancing the budget. They believe, and rightly, that vicious inflation does not exist in money used to bring together unemployed labour and unused natural resources at a cost level which leaves a profit on the transaction or which provides them with a necessity for their higher economic existence which they previously lacked.

Professor Hoover points out that :

“ Soviet economy has demonstrated its ability to operate without the use of the gold standard and with increasing expansion of the currency and bank credit in a way which it would be difficult for capitalistic economies to duplicate. Prices have not risen in proportion to this monetary and credit inflation. The Soviet rouble still serves with reasonable efficiency as a book-keeping standard of value. Capital construction has gone forward much farther than would have been possible if the advice of the old economists and bankers had been heeded. It is doubtful, however, whether inflation has not now been carried to such extremes that serious harm to the economic system will result before it can be checked.”

The
relation of
the Soviet
system to
the world.

I have quoted these passages extensively because they demonstrate so forcibly the position into which the human race has moved. In Chapter I I attempted to demonstrate the law which in the developed industrial world should limit the increase of production, that is, 3 per cent. per annum, based

upon long years of past experience. This limit would not of course apply to Russia, which is an under-developed country and which can afford to go much faster for a time. How much faster probably only trial and error will discover. They may have great slumps and depressions, but it is questionable whether they will be any worse, if as bad, as those of the capitalist world, probably no worse than the one we are now experiencing.

They, of course, have a complete system of Government control of foreign exchange, which is not complicated by any international banking, that will-o'-the-wisp which seems so profitable and is in fact so costly. Every word of Professor Hoover's two chapters on banking and money in Russia is so interesting and so apposite to the subject under discussion that I can only strongly recommend readers who are interested in the theory and reform of currency to read his book for themselves.

Of course all this only gives one side of the Russian experiment. The whole movement was a true and bloody revolution, which has passed through more than one reign of terror, and has imposed the most tremendous hardships and sufferings on the population, of a character unknown in the Western world for many decades or even centuries. But their scheme is vast, comprehensive, and, in a modern sense, idealistic. It is amazing to think of the most backward nation suddenly striding forward free of all ancient doubts and falsehoods. The Bolsheviks have been terribly and rightly criticized for their destruction of religion. At the same time we must not forget how much of their religion was a dead and hampering mass of super-

The
horrors and
disasters of
revolution.

stitutions bearing very little relation to the facts of their lives. Religion can be an ennobling, spiritual force in its pure original form. But mankind throughout the world to-day is turning away from religious forms and dogmas that have become so corrupt in the last few centuries that they have lost their virtue, and is searching for a fresh faith.

Again, the Russians have suffered terribly by destroying the whole of their educated, technical and professional classes. They are slowly rebuilding them out of poorer material imbued with an ideal. They considered that it was more important that the whole nation should be imbued with this ideal than that suffering should be mitigated or avoided or that more rapid progress should be made.

It remains to be seen whether a new educated class can be created from the Proletariat alone as efficient as the hereditary educated class which has been eliminated together with its tradition of service. Grave difficulty arises from the fact that the Russian revolution, though its programme to-day has evolved in the most modern way owing to the national freedom from intellectual restriction, was definitely a class revolution. All the upper classes have been destroyed, only to be created again ; firstly, because they are necessary ; secondly, because their existence is part of human nature. Zinoviev once referred to the then existing group of professors as "manure for the proletarian culture." To-day managers, technicians, etc., have proportionally as high a standard of living in Soviet Russia as they have elsewhere in the world.

The lesson is that all the revolutionary blood and

thunder is nonsensical, and organized class war is absurd. To destroy technicians and the educated classes, even if all the latter do not do their duty, is a waste of capital. Much time, trouble and money has been spent upon raising that section of the nation, and they constitute a national asset.

What is necessary is that they should recognize that they are not the nation itself—that the nation should recognize its possibilities, be inspired by its human future, and work with the whole-hearted co-operation of all classes in their respective spheres of action.

The possibility of intellectual inspiration without physical revolution.

This ideal is the one towards which the British people and the British Empire seem to be working. It is the leaders of the nation who must free themselves of all shackles of thought and prejudice which stand in the way of this achievement.

Russia unquestionably presents one of the major world problems of to-day and may easily, if its economic emancipation is not quickly followed by the economic co-operation of the capitalist world, particularly U.S.A. and the British Empire, become a dominant world force.

But there is another and greater danger in the Russian situation, and this is the feverish desire on the part of the Bolshevik leaders to drag the whole world through the quagmire of revolution from which they are just emerging. Their subversive propaganda, of which they openly boast, which is organized upon a world-wide scale and which includes the provocation of trouble between the black and the brown, the yellow and the white races, would, if it were successful, plunge the world into a series of such appalling conflicts that any

The danger of revolutionary propaganda.

ordered and civilized basis of human existence must be destroyed for centuries.

If Russia would come forward and reciprocate the spirit with which she has been received by nearly all the civilized countries of the world, and will meet her fellow human beings with co-operation instead of propaganda, the future of the human race would be far more secure, and one would feel more inclined to dare to hope for a prosperous and progressive life for the present and future generations.

The missing generation.

This generation has already more than enough to bear. We are following, not a generation of men, but a generation of ghosts—ghosts of men who in every country and from every nation laid down their lives in war, in the welter of mud in Europe or upon the burning hills and plains of the Near East. It is appalling when we realize the men who are not there. Between the leaders of to-day in every country, in every profession, in every walk of life, and those of my generation who will have to follow them, there is a great gap, not only of years, but of ideas. It is this gap that makes the world go so haltingly at the present time. The generation of people between forty and fifty, who should now be assuming responsibility, full of new ideas, new concepts, novel creative thought, is represented by a few isolated individuals who stand out like the sharp peaks of a mountain range instead of presenting a broad and level front.

This situation in normal circumstances would not necessarily be dangerous. But in a world wracked by the economic disturbances which naturally follow a great war, and commencing the

pangs which the birth of a new scientific régime invariably bring to any ordered society, the hostile attitude of Russia to all stable forms of human organization as they exist to-day creates a situation which is truly perilous to the future of the human race. The world would welcome a prosperous and developing Russia, although that by itself would be sufficient to create an economic disturbance of the first magnitude.

It is not possible that a territory and population of the size of Russia should sink suddenly to a very low standard of living and rise almost as suddenly to a much higher standard without creating the necessity for world readjustments, and these will be extremely difficult to achieve. A short, practical example of this is the position that has been created in the world wheat situation by the following sequence of events. First of all, Russia, one of the principal granaries of the world, goes out of business as an exporter of wheat soon after 1917. The result is an agricultural boom, and prosperity comes to the world's farmers. Canada, Australia, South America and U.S.A. make up the difference, bring more land under cultivation and, by the advancement of science, increase their yields. Fifteen years later, Russia begins to become a great exporter of wheat again, and the world cannot possibly adjust itself to such an illogical development which is based solely upon political instead of economic reasons, without taking novel and unprecedented steps.

The rapid decline and rise of Russian economy a disturbing world factor.

All these matters, however, will in time adjust themselves, and the amount of suffering and distress that will result must depend upon the intelligence or stupidity with which world leaders handle the

problem of a human generation moving forward to its appointed destiny. We must realize that, in every walk of life, the brilliant, the mature group who should be raising their art or their science to a new level, are represented by such scattered personalities that their efforts lack cohesion and are dim and glimmering where they should be bright and strong.

The
necessity
for the
redistribu-
tion of
population.

There is another cause for disturbance in the world, and that is, that as a result of our economic folly, the great undeveloped territories of the world, where millions of acres are starving for population, have been closed to immigrants. Meanwhile, in great congested areas, human beings are crowded thick upon the earth, hungry for space and the power of development. On fresh soil they can feed themselves and their progeny, create gardens, build houses with their own hands and win an honest, if difficult and precarious, living from Nature itself. But instead they are condemned to support existence in a confined society which, in order to protect itself, is bound to impose rigorous legislation to curb the natural human spirit that desires room for expansion.

In days gone by those whose energies and whose character did not readily submit to the cramping conditions of ordered society, migrated and used up their surplus vitality in the conquest of the earth, of nature and of lower types of civilization. This to-day has been rendered impossible, and as a result there is growing up a type of criminal in the world, and even in England, whose character was stressed in the report on the recent Dartmoor disturbances. He is not like the old "lag." He

is keen, desperate, revolutionary and intelligent. He becomes a motor bandit, not a pickpocket or a surreptitious burglar.

Throughout the world this danger exists that the youth of the next generation, thwarted from the creation of a new civilization, will turn its hand to the destruction of the old.

IV. REFORMS

In all these circumstances it is obvious that the economic emancipation of Great Britain and the Empire is a matter of the highest importance, not only to ourselves but to the world. The British people, in a long history of undisturbed insular development, have acquired a sense of peace, of human kindness and of justice which is unique in the human race. With the sea for their frontier, they have remained vigorous and hardy, courageous and determined, but without the fierceness and with far less of the cruelty which in mankind is naturally bound to accompany the capacity for self-preservation. They therefore constitute, with their vast empire, the greatest force for peace and civilization which exists to-day.

The world function of the British Empire.

The British have developed a system of parliamentary government, based upon this spirit of common sense and fair play which has served as a model to the world at large and which they alone can operate successfully. To-day, even in England, the parliamentary system, as it has grown up, is beginning to show signs of becoming obsolete, as we have seen in the first part of this chapter, and the necessity for reform has been stressed by many

The necessity for Parliamentary Reform.

people, and in particular by so brilliant and experienced a parliamentarian as Mr. Winston Churchill. He, among others of responsibility and position, has (see p. 173) on two important and serious occasions at least, put forward a plan for an economic Parliament. The occasions were his Romanes Lecture in 1930 and during his evidence before the Select Committee on Parliamentary Procedure in June 1931. And while I am not completely in accord with the details of his suggestions, I am fully convinced of the soundness of the principle.

The
necessity for
a Supreme
Economic
Council.

It does appear to me, however, that an Economic Supreme Council must be created in order to co-ordinate and develop the financial and industrial resources, firstly of Great Britain, and secondly, in conjunction with the Dominion Governments, of the Empire. As Sir Arthur Salter puts it: "Programmes of industrial production need obviously to be based more upon collective estimates, and to be subject, where necessary, in their execution to some collective influence." There is also a germ of this proposal in the suggestion put forward recently by the Trades Union Congress. They propose an imperial economic general staff. But that is not enough. The general staff must have executive power and not be merely a deliberating body.

Parliament is the supreme authority in Great Britain, and from Parliament alone can executive power be derived within the realm. Parliament, therefore, should either create a Third or Economic Chamber, which would present many constitutional difficulties, or preferably set up what would amount to an executive sub-committee of itself to handle

economic development. This Council should control the Bank of England, the Bank of England Discount Corporation, and have wide powers over industrial development and labour questions. Its acts should be directly executive, its decisions binding as long as Parliament leaves it in existence, and that body would alone have the power to dissolve the Economic Council and either call a new one or permanently dissolve it if the scheme proved in practice to work badly.¹

The constitution of the Economic Council might be the Governor and two representatives of the Bank of England, the chairmen of the Clearing-House Banks, a representative of the Private Bankers, a representative from the Stock Exchange, a representative from the Legal Profession concerned with Company Law and Finance, the members of the Tariff Advisory Committee, and one representative from each of twenty-six industrial groups, to be created by Royal Charter. These representatives must be the active chairmen, vice-chairmen, presidents or vice-presidents of operating industrial concerns of high reputation. The T.U.C. should provide twenty-six members representing similar groups, and these again must be either active Trades Union secretaries or other influential officials of active unions. There should be ten representatives of the House of Commons and ten from the House of Lords. In addition, the Prime

The constitution of a Supreme Economic Council.

¹ I think it would be desirable that the Supreme Economic Council should be appointed for five-year periods which would coincide with the normal lifetime of the elected House of Commons. Power should be given to the Prime Minister to dissolve the Council co-incidentally with a dissolution of Parliament and to a new Parliament to authorize the election of a new Council.

Minister, the Chancellor of the Exchequer, the Financial Secretary of the Treasury, the President of the Board of Trade, the Under-Secretary to the Board of Trade, the Ministers and Under-Secretaries for the Dominions and Colonies and Labour should all be statutory members of the Council. Certain other bodies should also have the right of sending representatives to the Economic Council. The Universities of Oxford, Cambridge, Edinburgh, Manchester, Birmingham, Liverpool, Glasgow, Wales, London and the combined smaller universities should send their professors of Economics. The Royal Statistical Society, the Society of Chartered Accountants, the Royal Society, the Royal Institution, the Royal Economic Society and other learned bodies should send, say, two representatives each. The Council should also have the power of co-opting not more than ten distinguished men to their body.

This would give a total of up to 150 members. They would have to elect their own chairman and such sub-committees as they felt to be desirable and necessary. Their function would be to decide and co-ordinate the economic functions of the nation.

The
functions of
the Supreme
Economic
Council.

It would be their duty to settle the Bank Rate, which under the new system would not vary more than once in two or three years, to decide upon credit policy and questions of currency. I am, in this, presuming that the reforms I have suggested for the Bank of England, the formation of a discount company and the currency reforms in the early part of the book are carried into effect. It would be one of their duties to recommend to

Parliament the total of budgetary expenditure which they felt the resources of the country were equal to. This recommendation would be public but not binding upon Parliament. The Chancellor of the Exchequer would have to defend any variation from their reasoned recommendation in the House of Commons. They would have no control whatever over taxation or estimates, but they would be well qualified to comment on the economic effect of given taxes if asked to do so by Parliament. They should be given statutory powers of settling labour and wages disputes through a system of courts set up by them and from whom they as a body would be the final court of appeal.

All industrial, financial and economic questions would come under their control, such as unemployment insurance and the questions that have been raised as to whether it would not be more economical to use the vast sums of money now spent on unemployment insurance in order to promote new manufactures and to subsidize certain types of industry rather than to pay the money to a man for not working, and thereby impose a burden on industry and on the nation which makes it doubly difficult for anyone to provide him with work. Naturally any money which had to be found for any schemes would have to be voted by Parliament.

Matters like the series of Coal Mines Acts, which have included such questions as the division of profits between capital and labour, hours of work, minimum rates of wages, and which have landed the country in ten years in two national strikes, a subsidy of £20 million, the loss of an important and vital proportion of its export trade,

and which have also included schemes for compulsory rationalization and price fixing, would be dealt with by the Economic Council. Parliament's attempts to deal with this matter have been a complete failure. They have added to the burdens and difficulties of the industry, made both capital and labour disinclined to settle their own differences, and have as a result of continued mismanagement by different parties, brought the country and Parliament to the conclusion that a problem which was years ago reasonably and efficiently settled in Germany, is insoluble in England.

Questions such as the limitation of the working day, retail prices, the consumers' council, the rationalization or protection of the steel industry, the rationalization and reorganization of the textile and shipping industries, would all be dealt with by this body of practical experts instead of being debated in the House of Commons *ad nauseam* by a number of earnest, intelligent and honourable men and women who have neither the practical knowledge nor the experience which would make their views on these intricate questions of any real interest. Further questions, such as the utilization of the credit facilities machinery, the export credits board, etc. etc., should all be under their control. The exact limitation of what questions were delegated to the Economic Council and what were dealt with by the ordinary parliamentary machinery, would soon be solved on the basis of common sense and convenience.

Many industrialists would oppose such a plan on the ground that they object to the control of industry by anybody. They must realize that they are

already subject to an inexpert and desultory control which will get worse rather than better. The Government already takes away and spends on non-industrial objects 25 per cent. of their profits. Hours of work, profit-sharing, compulsory amalgamation, price control, minimum wages, have already been dealt with by Parliament, and there is not one individualistic principle that remains unimpaired. Under a tariff system the tendency towards control will be greater.

One would very rapidly, however, arrive at a point of constitutional cleavage at which only effective rules of procedure would prevent a deadlock. One can readily imagine that the Economic Council might decide upon a course of action which was hostile to the views of the Government of the day. Responsible Ministers would then have a perfectly simple course open to them, and that would be to go to Parliament and ask for the dissolution of the Economic Council and for the election of a new Council. There would be ample time for this to be put into effect before the decisions of the Council became operative if the procedure of the Council consisted of first reading, second reading, committee and report stages, and third reading, as in the two Houses of Parliament. After third reading the decisions of the Economic Council should take effect by means of an Order in Council in the same way as the recommendations of the Tariff Advisory Committee are made effective. On no account should they go through the House of Commons and the House of Lords, where they would become subject to all the old party dissensions and be mutilated into a useless and an unrecognizable form, for

The constitutional position of the Supreme Economic Council.

which the Economic Council, as originators, might be held responsible by the nation. Parliament would always have the power of dissolving the Council as a whole by a simple Bill which could be passed through both Houses before any obnoxious action of the Council became effective.

The elected members of the Supreme Economic Council.

The whole of this machinery could be easily created by Act of Parliament and could, of course, if it proved to be unworkable, be as easily disposed of. The various bodies, who would have the statutory right to send representatives to the Economic Councils, would have to be created upon a definite basis and with a definite franchise by Act of Parliament. It would not be a difficult task to group the industrial and commercial activities of Great Britain into between twenty-five and thirty groups. These groups would have to be constituted into federations by Royal Charter, and a constitutional obligation imposed upon those whose activities fell within the scope of the federations to become members. These federations could impose certain rules for the control of the activities of their members much as the Guilds used to do in the past, but with the safeguards against obstruction that the existence of the Supreme Economic Council would give. Each of these federations and the scientific societies mentioned above would have the privilege and obligation of choosing a member of their body to represent them on the Supreme Economic Council, as would the appropriate Trades Unions. The latter might have to undergo a rational re-grouping in the same way as their industrial opposite numbers, the federations.

Such a body would have the inestimable advantage

of lifting out of the political arena purely economic and technical questions which experience has shown us, over the past ten years, a Parliament based on party politics is incapable of handling efficiently. It does not go as far as either Italy or Russia. But while preserving full political liberty and well-tried institutions, it creates upon that foundation an effective machine which combines the whole of the financial, industrial, commercial and economic ability of the nation. If this ability is not sufficient to solve our economic problem with goodwill and good sense, then nothing but revolution or industrial decay (which in England must inevitably lead to revolution) can result.

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CHAPTER VIII

THE HUMAN FUTURE

The
necessity
for true
perspective.

PROPHESY is a dangerous art, but lack of foresight is a crime. It is therefore necessary, if any concerted plan in regard to human affairs is to exist, that attempts should be made from time to time to obtain a perspective of human existence.

One of the results of the comparative pacification of the world and the extension of the powers of civilized countries has been the added knowledge which we have been able to obtain about the early history of the human race through the excavations that had been made in what was the cradle of mankind, the Near East and the Mediterranean basin. This development of archæology has tended to show, against the previous beliefs of scientific men, that the greater part of mythology and folk-lore has a foundation in historical fact.

Within the last year Professor Garstang has proved that it is highly probable that the ancient story of the fall of Jericho is founded upon an historical occurrence. Within recent years the mysteries of Babylon, Egypt and of Ur of the Chaldees have been unearthed, interpreted and given to the human race.

Current scientific thought tends to the notion that the last ice age was about 20,000 years B.C., and while there is a growing view that it is impossible

to measure these periods in terms of years and that it is necessary to speak of ages instead, yet for the purposes of obtaining the perspective which we need, 20,000 B.C. is a sufficiently good date.

Whatever form of man survived the last ice-age, he was certainly far remote from the *homo sapiens* who has developed into modern man since, and the first 10,000 years or more of his history must have been given up to a long, arduous and hazardous period of evolution. From somewhere in the neighbourhood of 7000 B.C., however, we are beginning to have some sort of record. Anthropologists lean towards the view that the legendary figure Adam existed at about this date. The civilization of Ur, from which Abraham probably originated, is put at about 5000 B.C., and by 2500 B.C., the period of the greatness of the Babylonian Empire, we already have accurate and detailed knowledge of the habits, thoughts and sciences of contemporary man.

It was with the Babylonians that scientific history can be said to have truly started. The Babylonians commenced a system of measurement, thereby laying the foundation of all future scientific work ; that is, the true knowledge of an object by the power of measuring it accurately and relating it to another object. They also had a considerable science of arithmetic and astronomy. Their religious worship was morally and spiritually, however, on a far lower plane than that of Abraham and his descendants. The story is carried on by the Egyptians, when by 2000 B.C. these people, who played such a large part in the building up of civilization, had already developed the sciences of

The early development of man.

The dawning of scientific thought.

mathematics and astronomy to a high degree, but apparently it was not until the development of Greek civilization in the neighbourhood of between 600 and 500 B.C. that really big strides in the development of natural sciences and scientific philosophy were made, probably based on the learning of Egypt.

We hear of Anacharsis about 592, who was said to have invented the Potter's Wheel; Glaucus, who could solder iron; of Theodorus, who was supposed to have lived somewhere about 530 B.C. and to have been the originator of the level, the lathe and the set-square.

The early philosophers attempt a rational explanation of life.

At the same time philosophers were beginning to attempt an explanation of the world and of matter based upon a combination of scientific and spiritual concepts; such as Anaximander's theory that worlds arose by a division of opposites from the Primordial stuff of chaos. The Greeks, from this beginning, developed a really high scientific and philosophical school, the leading men of which remain to-day outstanding figures among all mankind as great thinkers and great originators. An atomic theory, both of matter and time, was developed, and Plato evolved a conception of cosmos which was a world soul through which the world had life.

Socrates, Aristotle, the tutor of Alexander the Great, who himself took a scientific staff with him on his campaigns, Epicurus, Zeus, Hippocrates, one of the founders of medical science, and many others too numerous to mention, were among the great men who for nearly a thousand years influenced and contributed to the development of scientific

knowledge. Then until the closing of Plato's school, after 900 years of existence, marked the beginning of the dark ages which came in with the growth and development of Christianity and the invasions of the barbarians.

The early Christians believed that the end of the world was at hand, and all scientific and secular knowledge was not only useless but probably wicked. Saint Ambrose says, "to discuss the nature and position of the earth does not help us in our hope of the life to come," and there was a period when the early Christians definitely persecuted men of science and learning. The continuance of the world, however, beyond their expectations, caused some revision of this point of view, but throughout the whole of history right up to the violent struggle between Darwin, Huxley and the Church, Christianity has been a force which has tended against the development of scientific knowledge.

Christianity
arrests ex-
perimental
science.

Galileo was persecuted for his ideas, and forced to deny his scientific discovery under threat of physical torture. This is but one incident out of many in which the Christian Church has held back the development of the intellect and the powers of the European world, while at the same time preserving, chiefly in corrupted and obscure dogmatics, the great spiritual teaching of its Founder.

The Roman Empire, while it probably did more than any other that has existed before or since to bring order to vast territories and populations, and to raise the world standard of living, cannot be looked upon as having made great original con-

tributions to human knowledge. When eventually the Empires of the East and the West—of Byzantium and Rome—sank to their final level of impotence and decadence, the dark ages settled down on humanity. It is true that some of the knowledge of the ancients was preserved in the old monastic and episcopal libraries, but like a man who keeps bulbs in a safe, no flowers were cultivated, and not only did science stand still but the general standard of knowledge throughout the human race went back.

The
Mahomedan
impetus
towards the
Renaissance.

About A.D. 700 the religious leadership of Mahomed introduced a new element into world affairs, and Arabic civilization and culture began to arise, absorbing much of the half-forgotten learning of Greece, Rome and Byzantium, and producing an intellectual renaissance of its own which impinged upon Alexandria, which had remained the comparatively isolated centre of culture based upon a Greek and Jewish population. The Arabic conquest of Spain and the magnificent work of Fredrik, the Norman Duke, who was the third generation of the Norman conquerors of Sicily, played a great part in the slow intellectual renaissance which began to spread throughout Europe and the Levant.

The slow
recovery
of the
Renaissance.

Men such as Roger Bacon, Leonardo da Vinci, Francis Bacon and Galileo, recommenced the work between 1200 and 1650, when the beginnings of a general intellectual emancipation produced Descartes, Boyle, Pascal, and ultimately Newton and Locke, to lay the foundation of the tremendous scientific development of the nineteenth century. The progress of this period can perhaps be

realised when we recall the fact that it took an experienced traveller in the middle of the nineteenth century about the same length of time to do the journey from Rome to London as it took Constantine to return from London to Rome in order to seize the Imperial purple of the Roman Empire in the year A.D. 306.

By this time educated men had emerged from that state of mind which connected witchcraft, magic, and alchemy with the study of natural phenomena and experimental science. How far man had sunk from the free-thinking time of the school of Plato, and the intellectual influence of the early natural philosophers, can be dimly observed by the derivation of the word witch itself. Beginning with "witch" . . . "A woman regarded as having magical power through some compact with the devil," one goes back to find in Anglo-Saxon "witga" . . . "a seer," from "witan" . . . "to see" allied to "witan" "to know." *INOOE SEATTON* . . . Socrates' "Know thyself." The further one goes back the higher the meaning of the word becomes, the loftier the concept it expresses. The progress of time had brought a degradation of thought and understanding. But now the time was at hand, gathering force slowly from the Renaissance, when the emancipation of intellectual man would give not only free reign to scientific development but provide facilities and encouragement for the pursuit of knowledge.

Mr. Hector Bolitho, in his biography of the Prince Consort, tells how that remarkable individual had to struggle with the governing body of the

University of Cambridge when he was Chancellor in order to have provision made for scientific study in that institution, and it was not until after the Great Exhibition of 1851 that a College for scientific research was created under his guidance at Kensington Gore. Mr. Hector Bolitho records in his biography of the Prince Consort that Prince Albert found that from the curriculum of Cambridge University, metaphysics, psychology, political economy, oriental languages, modern languages, geography, chemistry and astronomy were quite excluded. The Vice-Chancellor admitted the mistakes, but he demurred faintly, because it was so difficult to convince the heads of colleges that there was virtue in any innovation. In the end Prince Albert's scheme for reform was adopted by a "triumphant majority," and the Vice-Chancellor vowed that Albert's election had brought in a new and glorious era in academic history. This is all the more surprising as by this time the work of Michael Faraday and James Watt had given electricity and steam power to the world. As far back as 1786, Galvani, Volta and Ohm had been discovering the secrets of electricity, while in 1848 Pasteur had given the world the science of antiseptics. And along the whole front the power of humanity over natural forces was advancing, led by distinguished and original thinkers in every civilized European country.

The emanci-
pation of
science.

The growth of the Turkish Empire had stifled the development of science in the Near East, confining its progress to European minds and separating the East and West. So it was that the type of mind that most readily synthesized scientific thought with

a rational philosophy of life was inoperative and one of the first men to attempt to co-ordinate philosophical speculation with knowledge of facts was a materialist, Herbert Spencer, who developed a theory of evolution prior to the publication of Darwin's *Origin of Species*. But it was the latter who was finally to break down the last barriers and obstructions of religious prejudice against the development of human knowledge.

In the forefront of this heated and passionate battle was his learned, eloquent and bellicose contemporary, Thomas Huxley. The obloquy and calumny with which both men were assailed is incredible to later generations, who have learnt to revere and respect these men as among the greatest leaders and benefactors of mankind. The scientific forces of the world rallied to their aid, and after an interval of nearly 1500 years the battle for the freedom of human thought was won, and intellectually the world recovered the position it had lost at the time of the closing of Plato's school. Later generations who have never read the letters and addresses of Thomas Huxley, in which the history of this intellectual revolution is enshrined, can scarcely realize how rapid the progress of the last three-quarters of a century has been.

The development of electric power, the wireless, the telephone, the ultra-violet ray, the development of the internal combustion engine which completed the conquest of the air, the development of chemistry, of anæsthetics, the development of photographic apparatus and the speaking film, have all created a profound revolution in human values.

The
immense
progress of
the last
century.

It is impossible here to do more than very briefly sketch the outline of this story, but from it we see that in reality the history of civilized man is very short, his progress on the whole very rapid. The first real intellectual development freed from all hampering superstition began about a century before the foundation of Plato's school, and for 1000 years till that school was closed progress was fairly rapid. Then came the dark period which lasted, roughly, another 1000 years, and in which practically no progress was made. Now in the last five centuries the progress of civilization has been terrific, and in the last 100 years man has discovered more than in the whole 10,000 years of his sapient existence.

But rapid as has been the progress of the past, that of the future will be faster. With our additional knowledge of metals and their behaviour, we are moving out of the steel age into an age of alloys which is beginning to render possible large-scale industrial work of a most complex chemical character at temperatures and pressures hitherto undreamed of. Scientifically, it is possible to produce steel which, because of its great purity and the fact that its crystals are all arranged in the optimum pattern, could, if formed into a tube sufficiently small for a man to carry about with him, withstand a pressure sufficient to discharge a projectile farther than the great gun with which the Germans bombarded Paris. So much has our knowledge of the spectrum increased that we can tell the weight of the stars by splitting up their rays and measuring the colours.

Einstein has thrown open a colossal field of speculative thought and theory ; Rutherford and

his brilliant collaborators have learned so much of the nature and construction of the atom and the electron that we are constantly on the verge of the discovery of the unlimited sources of power which splitting the atom may eventually put at the disposal of the human race. It has been calculated that the atomic energy contained in one pound of water would be sufficient to drive a 1000 h.p. engine for a whole year.

Already the younger generation of philosophers are beginning to conceive a world in which all physical wants of mankind can be easily satisfied. Mr. Aldous Huxley has made a brilliant study of this condition of human life in his book, *Brave New World*, where he conceives a completely new standard of moral and intellectual values based upon the fact that there would be nothing left in the physical world to strive for, and that therefore all the attributes of man which in the past 20,000 years have been considered the highest and the noblest, because they have been necessary for his survival and progress, cease to have any merit. Among these are heroism, self-sacrifice, courage, martyrdom, passion, inspiration and even original thought.

The observable tendency of man towards physical emancipation.

Whether this be the destiny to which we are impelled by the logical results of the intellect of man impinging upon the natural forces of the world, it is not my purpose to argue here; but one thing appears certain, and that is that all the Eastern religion and philosophies which glorify death and the life hereafter, and look upon human life as a miserable and unavoidable experience, are contrary to the whole tendency of natural development.

The Nirvana conceived by the Buddhists is, and can be, achieved by the single cell protoplasm, the lowest and earliest form of life we know, in the depth of a great ocean, or in some other gloomy spot where conditions are suitable, and it can carry on its simple and uneventful existence alive without the power or the desire of physical or spiritual adventure.

But unfortunately for the peace of mind and body of the protoplasm, Nature has so devised that it is not allowed to remain in this condition of desirable equilibrium. The facility with which it can obtain adequate nourishment, and the natural power that has been implanted within it to absorb that nourishment, decrees that as soon as conditions are favourable it will absorb such quantities as to become physically unstable, so that it is condemned to embark upon the long journey of the ever-increasing complexities of Evolution, which begins by the simple but dramatic operation of dividing itself. Thus begins the evolution of the sexes, and with it the whole problem of the turbulent and stormy development of life, leading through the wild night cries of the jungle, the passionate instinct of the mother to protect its young, the endless and unsolved problem of the relationship between man and woman, to the siege of Troy and the modern divorce court.

The de-
termination
of all forms
of life to
survive.

One constant thing in all this long and agonized progression of life struggling for existence and development in a universe which Sir James Jeans has described as being so hostile to the possibility of life through the wide ranges of its planets and constellations, as to be awesome to contemplate, is

the fierce desire of life to maintain itself and to exist upon this planet under the most difficult and illogical conditions.

So powerful is this desire that there are deep-sea fishes who, driven from the higher levels of the sea where life is easy to the great dark depths, have evolved through an immense struggle a system of luminosity in order to attract less intelligent fish for them to prey upon. One of these types has even gone so far as to develop a rod, which stands erect in the middle of its head, with a line and a hook with a light on the end for bait. With this it trawls through the depths of the ocean. The works of Henri Fabre are full of astounding instances of insects who, through æons of evolution, have acquired the inherent instincts and have shaped the necessary limbs for performing the most difficult and complex operations, both of construction and design, in order to safeguard the early life of their young, who will only emerge into the world long after the parents who gave them life are dead.

But of all Nature's creatures, man is the most universally adaptable. From the Eskimo, who lives in an ice hut in the dark for months at a time, to the Hottentot of the bush veldt, from the Indian of Terra del Fuegas who lives upon seals and is covered with blubber and spends most of his time in a little canoe, in the midst of which a small fire is kept constantly burning while he sails the grey and stormy seas of Cape Horn, to the Islanders of Bequia, who from generations of practice have evolved soles on their feet thick enough to dance upon red-hot stones without coming to any harm, mankind has spread and accommodated himself to

climate and conditions in any place where he can actually keep the breath in his body.

The destiny
of man.

This power of man to adapt himself, this passion of life to continue and to develop, must surely mean that it is our destiny and within our power to go forward until we have conquered and mastered the secrets and the powers of Nature. But as yet the human race dispersed across the face of the globe, divided by differences of colour, of religion, of tradition, for the most part maintains a miserably low standard of living. Among the great populations of Africa, India, the East Indies, China and Russia and the Near East, even the greater part of the Balkans, Mexico and South America, the standard of living is so low that it is doubtful if the more highly developed classes of European standard and civilization could survive at all under the conditions of semi-starvation, epidemic and exposure in which the indigenous populations exist.

Curse of
Babel.

The human race, through the power of printing, has largely mitigated the mythical curse of the Tower of Babel, but still lives in a spiritual Tower of Babel. Its efforts are mutually destructive and unco-ordinated, and so far, even civilized countries like England, France and Germany have not learned to combine, to co-ordinate and to direct their efforts to the advancement of their country and their civilization. Our ancient concepts of money and of economics still tie us down, imposing despair and discomfort in the midst of plenty, and teaching men and women that they have no right to existence in a world where human beings could still create for themselves the opportunities of an

honourable and useful existence if they were not prevented by ancient shibboleths. In a world where we admit that science is demanding fewer and better human beings, we deny to our people the knowledge of birth control, whereby science could enable them to fulfil the demands of modern conditions.

But material progress for its own sake will never be a sufficiently powerful force to overcome the obstacles of human nature and combine the efforts of men for their own advancement. The deepest desires and emotions in the breast of mankind are of a spiritual and mystical nature. The development of civilization has without any doubt had the effect of producing a kinder, a gentler and a nobler type of humanity, but so far the increased wealth of humanity has served to produce ugliness, and to destroy that one indefinable attribute of man and Nature—Beauty. If the whole human race were beautiful, clean and healthy instead of for the most part being a swarm of grimy savages with bestial instincts, or even in the higher stages of intellectual development a black-coated herd of thwarted and stunted growth, they would only create beautiful things and the world would be a fine place.

The motives and effects of civilization.

But it is the cost of beauty, of cleanliness, privacy and health that prevents this from happening. The carefully nurtured human being who grows up among beautiful things with beautiful ideas, becomes himself beautiful. When one considers the squalor of the great mass of humanity, one realizes what a vast field of potential economic development exists. And here lies a justification and necessity for a superior class to whom all others should look up

and envy, who are the peaks towards whom mankind rises from generation to generation, from the dead level of ugliness and mediocrity, which is all that man has so far created in the mass out of the beauty of Nature.

The development
of culture.

But there is another side to the question of increasing the material well-being of mankind—how does man react towards the sudden increase in his material wealth? Does he in fact create a more beautiful world, or does he merely multiply his original ugliness? The answer is that in time, over a period of two or three generations, all mankind tends towards the improvement of taste and the advancement of culture that the practice and patronage of the Fine Arts give. One can affirm without any contradiction that the great Art periods of the world have followed wealth and patronage. Athens, Rome, Florence, Venice and the other great cities which stand out as man's creation of the beautiful, have all come into being as the result of surplus wealth existing for several generations, during which time the opportunity for the advancement of cultured patronage has existed.

The
instinct for
beauty.

The desire for beauty and the desire of the human being to express his appreciation of it is one of the earliest recognizable attributes of the human being, and one has only to go back to the very earliest histories of man—to the caves which were painted by torchlight under the greatest difficulties, and to the early bushman painting of South Africa, both of which are marvels of beauty, observation and execution to this very day—to realize the truth of this statement. It is an interesting commentary on the development of the human race that these

early painters recorded the actions of animals in full gallop in attitudes that were not again discovered or observed by the human eye until the discovery of the instantaneous cameras, an interval of several thousand years. So much have our physical powers deteriorated that our eye is no longer able to detect these movements ; so much has our knowledge and intelligence improved that we are able to devise a simple instrument which can do it for us. There are individuals, noted batsmen, tennis and polo players, who have retained and re-developed a certain proportion of this primitive rapidity of vision. To such men the flight of a cricket ball from the hand of the world's fastest bowlers can be easily traced during the whole of its course and quite leisurely dealt with on its arrival.

However, a rapid accession of wealth can also have evil effects. Both in England and America the rapid increase of wealth of the past half-century has produced more square yards of deliberate and unrelieved hideousness than the whole human race had previously succeeded in producing in 20,000 years. In both countries, however, a tendency in the opposite direction is now making itself manifest. The great wealth of the U.S.A. during the last decade had several aspects which must be displeasing, both to moralists and philosophers ; a sort of night-club craze for tawdry city pleasures, and a tendency to move away from natural affections and duties, characterized this phase of American development and affected Europe to some extent.

The effects
of wealth.

But I am convinced that this manifestation of

increased wealth is a temporary interlude. Though it may be said that a gradual accession to wealth is preferable to a rapid alteration of the standard of living of a people, above all things the high standard must be maintained for several generations before the true tendency of the development can be detected. That an improvement in the standard of living, which removes the human being from the immediate and personal struggle to maintain life, is the only means of spiritual development, can be observed by any study of the savage races of the world, such as the Bedouins, the Hottentots and the Australian aborigines.

One factor has been common to all civilization, and that has been the desire of the human being to mitigate his natural gregarious instinct to herd into cities by returning at times in comfort and security to the land—to Nature. The early Chinese civilization held in high esteem the life of the country gentleman. Socrates and Plato discussed the problem of how much time should be spent in the city and how much in the country. It seems certain that in a world where all physical needs were readily satisfied, man would tend to return to the countryside and to his ancient delight in being able to sit under his own fig tree.

The
immediate
problem.

But the immediate question with which the world is faced is the alleviation of present suffering and the provision of a higher standard of living for the great mass of the people. By organization, co-operation, common sense and hard work, the human race could easily surmount this problem. But when one visualizes the efforts that are being made in Russia, in Italy, in England, to inspire the people

with an ideal sufficiently powerful to obtain true national co-operation to achieve this end, and when one further realizes how utterly divergent in tradition, sentiment and ideology these National groups are, it becomes clear that we are still a long way from a prospect of world co-operation. One has only to look at the history of the League of Nations for the last decade for confirmation of this fact.

The largest unit of human organization is the British Empire. Within it the income of the average white family is probably about £100 a year, and of the average native family about £15 a year. To raise this to the equivalent in goods and services of £250 a year and £50 respectively is a problem that could be solved in fifty years if we made up our minds to set about it. The effect of the success of such a movement on the economic future of the human race would be dramatic. But both political and economic stability are essential if we are to succeed. Following such a lead we might see the human race divide itself into four or five groups—the Empire, Europe, North and South America, Russia and a Far Eastern Confederation—each developing to the maximum of their ability within their respective territories and by friendly co-operation among each other. This alone can raise the human race to that standard of life to which it can and must, no doubt, attain before its full spiritual development can begin.

CHAPTER IX

SYNTHESIS

NONE of these ideals, moral, intellectual or physical, can be attained as long as we continue to work under an obsolete monetary system. Therefore, I believe we should approach our problem by attempting to solve the monetary question and by moving away from antiquated money to modern money.

The most obvious remark to make about modern money from the point of view of the ordinary citizen is that it is chiefly conspicuous by its absence. Nevertheless, this is not true. There is potentially plenty of money in the world. Just as much as we want for a comfortable and decent existence, but our present system of finance prevents us having it.

International
money and
its effect on
industry.

That is the first point at which I attack the present system. Our system of "international" money, free exchanges, and free exchange of gold only has one merit: that it facilitates international trade. International trade is useful and profitable, but is not in every case an essential function of human existence. It does, however, increase the total volume of world trade by giving the fullest possible play to the tastes of the individual. It permits a man in Newcastle to import Russian coal if he

wants to, or to obtain any other import from this extreme point down the scale to the vital necessities.

But there would be nothing intrinsically valuable or sacred about international trade to a country that possessed everything its citizens desired. Its sole purpose is to increase the total wealth and prosperity of mankind. If the maintenance of an international currency basis in its present form produces instability which leads to disaster, and if the limitation of credit money, which this particular form of currency entails, limits the natural development of world industry, we should surely attempt to find means of improving our currency basis, and even if necessary, confining international trade to those limits which conduce to the greatest regularity and stability.

Now, while mankind as a whole lives by *production*, the most profitable activities are distribution and finance. The merchant makes more money as a rule than the producer. He takes the risk that no one will want the goods he has bought at the price he paid for them. He performs the useful service of finding customers for the producers. But in the modern world both these elements of risk and doubt are being rapidly mitigated. To-day, the producer is becoming his own merchant, and the great increase in the speed of transport and communication has considerably lessened the initial difficulties of both producer and financier. Yet these two classes control our financial system all over the world. The mass of humanity who live by production, and who are the real industrialists, have but little to say.

The "industrialist" the basis of civilized life.

This is becoming more and more understood in the modern world, and even *The Times* newspaper has published important articles to analyse the resentment "industry" feels against the rest of the Nation. Its writers, in common with many others, overlook the fact that industry *is* the Nation, if you include agriculture, the greatest productive industry of all, and transportation. The remaining activities of any country, civil services, municipal services, the professions, journalism, entertainment, merchants, finance and banking, are all adjuncts of industry. Without productive industry none of them could exist.

International trade must be so controlled as to benefit industry.

Now there is no intrinsic merit to industry in international trade, except in so far as it increases world purchasing power, and therefore world markets. Apart from that, what industry wants is stability. It is better to have a factory to supply a given territory regularly (provided you begin on a scale which permits an economic unit of manufacture) than to have a factory with a largely fluctuating world trade. In the first case, the workman (who is the largest human unit) has regular employment and regular wages; the management can plan out a sales programme two or three years ahead; the technician can plan the regular and economic development of his plant to reduce costs and increase output. In the second, subject to all the vagaries of world competition, the workers may be frequently out of a job; everything goes by fits and starts. The technician makes a plan for ordinary development, and is suddenly told to double his plant (which is, at that point, an uneconomic thing to do), because the sales manage-

ment see a big market ahead. Suddenly, someone else puts up a works and makes that market unprofitable and the plant has to be shut down again. The capital has been wasted and workmen, who have been drawn to the district to fulfil the new demand for labour, have to re-migrate. One sees the point of view of the technical industrialist, in the maxim of my grandfather, that the home trade was the manufacturers' foundation, and that all export trade was comparatively unstable and insecure.

The recent advances of science tend to show that in the future most countries will be able to become self-supporting. For instance, in England, we can fix the nitrogen in the air. By such means we could probably become eventually self-sufficient in foodstuffs. Coal can be turned into oil and into plastic materials that will probably replace many of the present uses of timber. It is quite conceivable that in the next fifty years even England will be able adequately and independently to support a large population regulated by proper methods of birth control.

This notion is expressing itself throughout the world in the demand for the national control of imports (usually by means of tariffs). The merchants and the financiers are both against it, because they want a large international trade, in order to have large sums moving about on paper or in bank ledgers, out of which they can abstract a useful profit by pretending to settle international debts that, in fact, cannot be settled in that way.

The world's industrial population, which is the political majority of all countries, wants nothing of

"Industrial-
ists" politic-
ally the
ultimate
controlling
force.

the kind. The one international freedom which could be really useful to them is scientific freedom, and, since industry is a manifestation of science, that means an international but controlled exchange of patents, processes, and industrial knowledge. This would contribute more than any other single factor to the rapid advance of real wealth in the world : Man's power over the natural resources of the Earth. What is needed is regular domestic trade on a stable basis, an international trade controlled and regulated to protect the basis of existence against international dumping at marginal costs, etc. ; and being ultimately the strongest political force all over the world, the workers will win.

British post
war policy,
anti-indus-
trial.

England was naturally the last country to come to this point of view. For seventy years she had flourished in an incipiently industrial world by being first in the field with manufactured goods, and owning the plant to work up raw materials she was able to buy food and semi-manufactured materials cheaply, and to sell manufactured goods as dear as she chose with a view to maximum consumption.

Not unnaturally, she became very rich. It required no more genius to prosper as a manufacturer in England for the period 1860 to 1920 than it did in U.S.A. from 1889 to 1929. As soon as the rest of the world began to manufacture for themselves, England began to sell them machinery. Now the world is becoming industrialized, and unless England supplies her own home market and can develop the initial success of Ottawa so as to fit in with her Empire to an economic

scheme based on her own geographical, geological and political advantages, her population will become poor again, and after a period of intense suffering and poverty will be reduced by migration and disease to a level which the territory can support.

Now none of this has been taken into account in the economic policy of Great Britain, which, expressed through the Bank of England and the Treasury, has been one of the principal world factors in post-war economic thought. The collapse of "orthodoxy."

We have already remarked that the three principal manifestations in action of their policy have been, Free Trade, the return to Gold, and the de-monetization of silver, all of which have after ten years proved failures. Each of these tends in the same direction, the freedom of international exchange and trade, based on stable and sound international money. An excellent scheme of things were it attainable. Over and over again, before the Macmillan Committee, the Governor of the Bank of England stressed the importance of the "external" as opposed to the "internal" point of view, that is to say, the importance of saving international trade and then as a nation benefiting in the general result, rather than concentrating on saving ourselves as a nation in an admittedly illogical and wrong-headed world.

Unfortunately, to attain the orthodox ideal, the individual citizen has to go through hell. The propounders of the theory frankly admit it. The returned soldier, who fought like a tiger for his country under psychological and climatic conditions which are unprecedented in human history, must

now starve for his country, and waste away his life in idleness on the dole. The industrialists, starved of profit, as the textile and steel, coal, ship-building and shipping and heavy engineering industries are, must fall behind in the world's race, with diminishing superiority of equipment and reputation, which can only be maintained by high and even extravagant expenditure on research, prestige, advertising, and so on.

The national damage resulting from anti-industrial policy.

If you deprive your engineers of the last development in machinery for their plant, you deprive yourself of the next idea that is going to grow out of it. If you deprive the working man of the last five years of regular work and increasing skill and experience in his job, you deprive the nation of that much industrial skill and training for the remainder of his working life. If you deprive the clerk, the salesman, the accountant, solicitor, draughtsman, of three or four years of employment between the ages of 25 and 40, you diminish his value between 40 and 60, when he will be occupying the most senior and responsible posts : for a man acquires his experience and knowledge between 25 and 40 and thereafter learns less and less, not because there is less to learn—there is, in fact, probably more—but because his mind is far less capable of absorbing new ideas and thinking new thoughts. Therefore a period like the last ten years has not only diminished the comparative physical value of British plant and machinery and technical skill as opposed to the rest of the world, but has diminished the knowledge and skill of the productive population (who, the Treasury might note, can alone earn the money to pay the taxes they want to collect), and further has created

a semi-permanent physiological condition, owing to the continued setbacks in the experience of men between 1919 and 1932, which unfits them to adapt themselves to any rapid economic expansion in later years.

The principal asset of a country is its population ; of a business, its goodwill. The Kaffirs swarmed over the Rand for centuries, the Arabs over the oil-fields of Iraq. The physical assets of gold and oil were present all the time, but it required a new population to develop them. A company whom nobody trusts can do no business, another with no assets but the confidence of its customers and banks can rapidly acquire whatever else it needs.

National economy should be based on human well-being, not on theory.

Therefore, national politics should be directed on human lines, not on financial theories of at least debatable utility. Keep the population at work, the businesses running : take possibly a few financial risks to do it. All our orthodoxy, our high taxation, our much-vaunted probity has only resulted in the Bank of England being once more in 1931 unable to meet its obligations.

The practical industrialist has long preached these ideas to the politician : the politician having no first-hand knowledge of either industry or finance, bends before the rod that seems likely to hit him first and hardest : that is, of course, the Treasury and the Bank of England. Now that ordinary party politics have, at any rate for the time being, gone by the board, and our financial policy is in the melting-pot, perhaps something will be evolved to give the industrialist, who is the nation, a chance. The main point is that industry is dynamic ; it develops by the resolution of the forces of its own movements,

if you slow it down with heavy burdens you diminish its power in every particular. Industry must come first, international finance second. France has consistently followed the policy of looking after herself first : as a result the French to-day are more powerful than at any time since Louis XV. If I were a Frenchman I should be proud of my Government, which changes every few weeks, but which is always concerned with the greatness and prosperity of France. We have neglected our own vital national interests in favour of chimerical and impractical notions about world affairs and world money : all of which have collapsed because they were not based upon first-hand practical knowledge. We tried to revive our industry by reviving the world. We nearly succeeded in the latter at the expense of the former. In the long run our own collapse shook the world more and has done more harm than if we had looked after ourselves and been ourselves strong and independent.

Regulation of
world political
economy
by international
agreement im-
probable.

It will, of course, be argued that International Finance can only be settled by International Co-operation. This is not wholly true. If every country had a monetary and industrial system which was sound and in accordance with ultimate economic facts, the international aspect of the question would automatically settle itself. No international financial system is sound if it is at the mercy of one strong country who can wreck it by not playing the game according to rules which are unenforceable, and can only be maintained by the permanent goodwill of the Governments of all the leading countries. This non-existent goodwill is the real basis of international credit, and that in turn is dependent upon

the Governments of England and the Empire, U.S.A., France, Italy, Germany, Austria, Czecho-Slovakia, Russia, etc., agreeing on fundamental economic principles, which they don't. As a result even if they suddenly all wished each other well, which they also do not, they are unlikely to agree as to what is mutually harmful or mutually beneficial. They may be forced into apparent agreement by the desperate position facing them at Lausanne in 1932, but this will not last once the position eases again.

We consistently deny the sum of human affairs that which we consistently insist on in every part, that is, efficient organization, planning, foresight, and above all, knowledge. The importance of knowledge.

Imagine the horror with which the ordinary mortal would regard a man who used an aero motor whose design was based upon insufficient knowledge and lack of information as to performance and in which co-ordination between the valves and the ignition was absent. With what abuse would the industrialist be showered if he operated a plant about which he had taken so little trouble to inform himself that he did not know that it was dangerous if inexpertly handled.

Yet that is the position to-day of the world's bankers, politicians and industrialists. Wherever the economist turns for vital facts the figures are not available. The Government do not insist by law upon having them. There is no concerted planning in the world, except in Italy and Russia.

In U.S.A., for instance, there are too many people growing wheat. It is necessary to get them to grow something else. They have been growing too much The importance of planning.

wheat for years but nothing is done about it. In England there have been too many people producing coal for years. But nothing is done about it. No one has the necessary power or the necessary facts.

The individualistic chaotic condition wrongly called the capitalist system (for all systems are capitalistic, and the present state of affairs is better described as a lack of system) can only be justified on the grounds that it allows the maximum development of the individual and should produce the maximum number of geniuses. Unfortunately, just at the present moment, when the world needs genius more than ever before in its history, there is none to be found. At any rate among the generation in power. Perhaps this is not the fault of the generation, for, after all, one generation does not, as a rule, vary very much from another. Perhaps it is the case that what the modern condition of society demands is not the control and direct action of individuals so much as the concerted co-operation of the nation each in his best capacity. The stress that is laid in the present day upon team work in sport or war, in industry or politics, as compared to the idea of the ancient heroes of the classics or of the Middle Ages is evidence of this trend. The increasing importance of the idea of working for the team instead of merely for oneself is beginning to play an important part in the ethics which serve modern man in place of a rapidly diminishing church morality.

The power of
unified action.

That is why there exist in the world to-day certain countries where it can be observed that the population is happily pursuing its work in spite of privation

or difficulties, while in other countries with far less trouble and far greater opportunities the population is distressed and at sea. Italy and Russia are particular examples of this. In Italy everybody believes that in just doing his daily work to the utmost of his or her abilities he is helping to re-create the Italian nation and to build up his country. He touches back to the greatness of his Roman ancestors and feels strong in their tradition and in the fact that there is a co-ordinated National plan in which he, as a simple citizen, has his place, and an economic pattern which he believes has a real meaning and is based on a logical idea of social justice and national development. In U.S.A. the opposite is the case. There is a great country with an enormous but still inadequate population, immense natural resources, but quite unable to pull itself together and get on with the job of arranging its life on some sort of rational basis.

The trouble is that they believe in nothing. Mussolini's greatest contribution to Italy is that he has been almost a religious leader. He has given the people a belief. Fascism is not only a political party, it is a way of life. His administrative ability is displayed not only in the number of departments that he can successfully run at the same time, but also in the fact that while giving Italy a new and vital belief he has reconciled the Catholic Church.

The necessity
for belief.

Genius can still play its part in human affairs, but in rather a different way. The genius of leadership is more important than the genius of command. Mussolini has never tried to usurp the throne of Italy. He has remained one of the people. He

lives very simply, avoids much outward show, and, above all, in giving direction to thought and inspiration has created something which will survive him as long as the people are capable of maintaining that high standard of social co-operation. It is this co-operation of the infinite number of individuals that can really give mankind the power to master the forces that science has placed at his disposal.

Remedies
based on the
fact of the
3 per cent.
average in-
crease in
world wealth.

The remedies I have proposed in this book are of international application, though they could be put into practice by each nation separately. Any one nation could apply them whether the others followed or not. If England started, others would be sure to follow. To recapitulate, it is necessary to repeat the basis of the conception, that is the adjustment of our financial life to the *economic fact* of the permanent cumulative 3 per cent. annual increase of world wealth, which by getting out of balance and appearing sometimes as + 6 or 7 per cent. and at others as - 6 or 7 per cent. dislocates the too rigid system under which we live. (See page 7 *et seq.*)

Automatic
liquidity of
Banks,
through the
Bank of
England Dis-
count Cor-
poration.

To mitigate the shocks of this fundamental instability and to even the extremes between the long view on which credit is based in the + or prosperous periods, and the short view on which it is withdrawn during the - or impoverished periods (see page 44 *et seq.*), I have proposed to set up a National institution, the Bank of England Discount Corporation, with whom all Government securities and securities against which loans are granted should be discounted, on a regular scale, after proper investigation under proper management, thus making the banks permanently liquid and doing in

advance by means of proper machinery, and in order to avoid crisis, what we have seen always has to be done under the present system, but too late, and ineffectively organized when the inevitable crisis does arise (see page 52). Thus, while 20 or 30 millions could have prevented the flight from British Stock Exchange securities in 1930-31, and thereby by arresting the whirlpool descent of forced sales and the destruction of a credit basis of at least £2000 million of values in order to reduce bank loans by some £100 millions (these figures are approximate to about the middle of 1932 ; exact figures up to 31st December 1931 are quoted on pages 52-53), it became necessary to borrow and use £150 million to try to manage the sterling market in 1932, which, under the system I propose, would never have got out of hand.

Coupled with the creation of the Bank of England Discount Corporation is the double currency ; the sovereign for domestic purposes ; the Pound Sterling for foreign exchange purposes (see page 69 *et seq.*). The first in the form of the old Treasury note, which bore on its face the statement that the notes were legal tender up to any amount (as opposed to the present Bank of England note, which only promises you another "ten shillings," or one pound, in exchange ; presumably a new piece of paper), with this difference that the sovereign notes would be legal tender up to a thousand pounds only ; above that a guaranteed cheque on any of the ten clearing house banks. The issueable amount of this currency would be determined only by the demand for it : that is the security at the disposal of those who desired to use it.

The double
currency
system.

The Pound Sterling, or foreign exchange currency, which would be issued by the Bank of England only to banks, in amounts of not less than £10,000 in return for sovereign credits, would be based on gold,¹ at a very high ratio—50 or even 100 per cent. Not more than £300 million would be necessary at to-day's date for the settlement of foreign exchange balances. The notes, which should not be printed in amounts of less than £1000, should be exchangeable for gold at three months from demand. Suitable restrictions should be put in force to prevent their going out of circulation or being misused. The total amount of these notes would have to be increased at the rate of some 3 per cent. per annum to allow for the national increase in trade.

Thus we see a system which utterly excludes the possibility of undue shortage of credit or currency, the freezing up of banks, forced sales and the whirlpool descent of all prices, speculation in our domestic currency, the sudden predominance of the short or panic view in finance. It would be capable of adjusting itself to the needs of industry and commerce. The foreign exchange currency would operate as a standard for all international transactions, based on gold as before, but instead of £150 million of gold supporting £2400 million of monetary units, it would support only £300 million or just enough circulating currency to be used as a link to carry over between the setting off of foreign credits and debits. Each country could have such a currency, its relative exchange value

¹ Mr. Taylor Peddie has since suggested that silver could be used as treasure (not currency) as well as gold. This would further simplify the accumulation of treasure necessary to support the £1 sterling.

being based simply on the amount of gold behind it and not being immediately or directly affected by the vagaries of politicians and their budgets. After all, politicians and their budgets come and go, but the countries and the populations continue to exist. With a double currency the population would certainly suffer from national financial misdemeanour, but their foreign exchange currency would remain undisturbed.

Now it is clearly agreed that Government debts are not payable in gold. The interest on War Loan is paid in paper. Government Securities. Therefore, the capital can be repaid in paper, and under the system I have proposed, the Government debts could be repaid in sovereign credits at a pace determined by the pressure that would be created on the investment market by the demand for new fields of investment by those who were not satisfied with Bank deposit rate.¹ Government Bonds being eligible for discount with the Bank of England Discount Corporation, future borrowing for domestic uses could be effected by depositing a bond for the total amount with that institution and obtaining a sovereign credit at the Bank of England against it. It would certainly make the obvious difficulties, and in some case injustices, of the recent conversion scheme unnecessary. The success of that scheme has been due to the patriotism of the British public in supporting the National Government, and to the skill with which General Seely and his organization have appealed to the people. Its economic effect has been

¹ Of course, once such a system existed the rational course would be to create an international foreign exchange currency. But this presupposes comparative sanity and international agreement which I cannot believe in until I see it in existence.

The deflation
of credit. Its
prevention
and cure.

dramatic but fortuitous. (See pp. 133 and 259-61.)

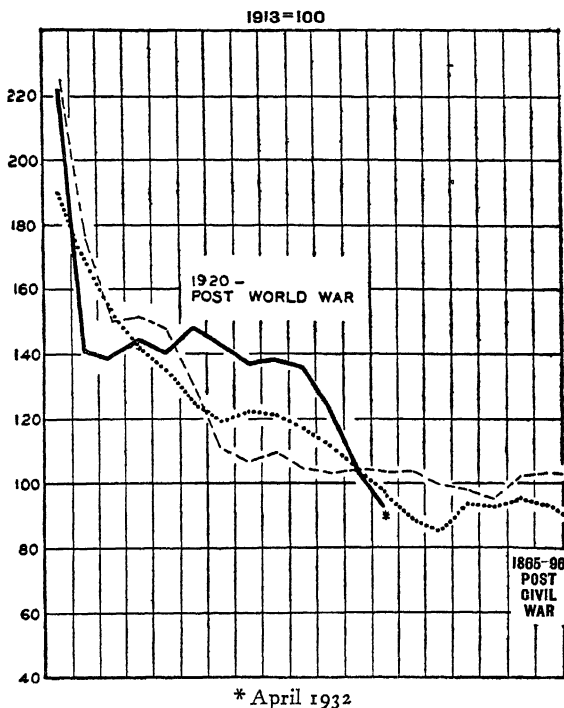
The main object of my whole scheme is to provide against the recurring disappearance of credit through collapsing prices. This is not a gold crisis; it is a credit crisis. It is idle to point out that banks are prepared to lend on good security when the values of the securities on which they can lend have fallen 70 and 80 per cent. It is the collapse that causes the shortage of credit. Eventually, there is bound to be the equivalent of a vast world inflation. It may not appear to be inflation. It may appear as that fantastic American phenomenon—reflation; but its simple relative effect will be the same. The Sauerbeck index, which takes 1867-77 as 100, shows that in 1931 we were already down to 83. We are not only back to pre-war values, but far below them and we have fallen from a height that has broken many bones and torn many muscles. The restorative that Nature prescribes and provides is a little mountain air, as the following table shows :—

| | | | |
|-------------------|-----|----------------|-----|
| 1867/77 | 100 | 1918 | 192 |
| 1885/9 | 70 | 1919 | 206 |
| 1890/4 | 69 | 1920 | 251 |
| 1895/9 | 63 | 1921 | 155 |
| 1900/4 | 71 | 1922 | 131 |
| 1905/9 | 75 | 1923 | 129 |
| 1910 | 78 | 1924 | 139 |
| 1911 | 80 | 1925 | 136 |
| 1912 | 85 | 1926 | 126 |
| 1913 | 85 | 1927 | 122 |
| 1914 | 85 | 1928 | 120 |
| 1915 | 108 | 1929 | 115 |
| 1916 | 136 | 1930 | 97 |
| 1917 | 175 | 1931 | 83 |

The next table, published by the First National Bank of Boston, shows that both our declines, 1921 and 1929, were steeper and more severe than the

post-Napoleonic and post-American Civil War phenomena. That is due to the increased complexity of modern international organization; it also foreshadows that the recovery may be more rapid :

MAJOR TREND OF WHOLESALE COMMODITY PRICES
IN POST-WAR PERIODS



But in any event, we must try to change the science of economics from the mere record and explanation of the phenomena of the past to a constructive science that will help to adjust finance to industry for the future.

That creative thought in these matters is necessary is abundantly proved when one considers one elementary and well-established fact. The International Labour Office figures for unemployment

Unemploy-
ment and the
Rationaliza-
tion of
Leisure.

in the civilized world show that 25 millions are without work. That affects, at only 4 instead of 5 to the family, over 100 million human beings. Had they the power of combination and the urge of desperation behind them they could upset civilized society as we carry it on. Yet there are many more millions who work longer than they want to, who have probably less than fourteen days' holiday in the year, if as much. Now, it would be very pleasant if those who are in work could have two holidays, say of three weeks each, for which they would have to save up out of their present wages. If they did, a very large number of those now totally unemployed would find plenty of work replacing them. The same principle applies to hours of work. This problem is now figuring in the Republican programme for the Presidential Elections in U.S.A. (1932).

This might be called the Rationalization of Leisure. It is clearly a question that has got to be met and dealt with in the future. It is intimately connected with the progress of modern industrial processes and labour-saving machinery. There is no object in all this machinery unless it is going to give man not only wealth, but leisure. How adjustments are to be made, how the lag between the development of new machinery and the reabsorption of the working population into the ancillary industries that arise thereafter operates, how to move working populations from one district to another with the minimum of dislocation, are all subjects fit to be studied by practical economists and which should be solved not by any haphazard methods, but by the scientific application of trained minds to known and accurately observed facts.

There is no more obvious truism than this, that it is not the scientists who are lagging behind in the forward march of civilization. It is the economists and the politicians who are as yet unable to make proper use of the priceless gifts which the brains and imagination of the scientific world are so lavishly placing at their disposal.

The Natural Sciences have outstripped the Philosophic Sciences.

The march of progress has been too rapid. The last war, instead of impoverishing, as did previous wars, enriched mankind through the enormous scientific developments which it forced ahead at an unnatural speed. In three generations the whole position of mankind on earth has changed. In 1889 my grandfather (Dr. Ludwig Mond) said, in his Presidential Address to the Society of Chemical Industry :

"We can now foresee, in most cases, in what direction progress in technology will move, and, in consequence, the inventor is now frequently in advance of the wants of his time. . . . It can then no longer be stated that 'Necessity is the mother of invention,' but I think it may truly be said that the steady methodical investigation of natural phenomena is the father of industrial progress." This statement, which we take as an obvious truism, was at that time looked upon as an almost inspired vision of the future. In 1928 my father defined Rationalization for the Dictionary as :

"The application of scientific organization to industry by the unification of the processes of production and distribution with the object of approximating supply to demand."

Already the question of the day had moved from the power of production to the power of consump-

tion. To both these dicta I would venture to add the following : that the political economy of the future must be that science which demonstrates to mankind how so to organize our terrestrial existence as to obtain the maximum benefit from the constantly increasing power over the resources of the universe which the natural sciences place at his disposal.

Economics ultimately based on politics, politics must be based on the facts of science.

If this is true, what we need is not only the theory of this new aspect of political economy, but also the practice and the power of scientific economic action removed from the direct conflict of partisan politics. Politics in their old sense must continue to decide many questions for the life of the nation, but on one question all nations are almost unanimous—that is to obtain the maximum prosperity for the population. We must also try to agree how we are to divide it up. This is a directly political question. The economic questions involved demand a separate and careful study, which is worthy of a book itself ; but clearly the political aspect demands that if industry is to be fostered and encouraged by the collective action of the nation, the nation has a right to decide how those collective profits are to be applied. It is no longer the simple case of the individual enjoying the fruits of his own labour ; he must enjoy them within the limits set up by the nation which (as a conscious and direct policy) makes it possible for him to make profits. So far, we have had Parliament continually interfering with and limiting the capacity of industry with fresh burdens, and without any conscious effort to make industry profitable. At last the Tariff Policy of the National Government has given us some movement in the

direction of a concentrated national effort in favour of industry. Eventually this will impose obligations upon industry and I have republished (see pages 143-4) a suggestion I made some time ago for an agreed national method of profit-sharing, so as to provide automatically for the distribution of the excess profits of industry, under a nationally protected scheme, to the workers and consumers, thus making certain of an equitable distribution of the increased wealth throughout the community.

Until some principle for the division of the National Income is agreed upon, there will always be strife and discontent among those who have less because a minority has more. There is, as a matter of fact, a great national value in having independent wealthy men. They can undertake work, embark upon researches, take independent action, without having to consult a lot of other people. They need not have their activities watered down by the opinions of committees, nor are they bound to argue with a whole lot of people and get their agreement every time they wish to act. Within the limits imposed by law they are free. If they are fools they will soon become poor ; if they are wise they will, by virtue of their power, be a benefit to their nation. The proportion of the virtuous to the knaves will be the same as in any other class of the community.

In order to secure balanced rational life we shall have to revise our political organization.

I have included, in the chapter on Politics, the study of the political organization of the two most opposite countries in the world—Russia and Italy. They appear in these years of world crisis to be managing better rather than worse than the countries

Modern political organization in Italy and Russia and their lessons for Britain.

which have not had the stimulus which revolution gives to original creative thought in the political sphere, in spite of the destructive effects of internal strife and collapse.

Revolutions should be unnecessary for intelligent people. Everything that they achieve can be better achieved by goodwill and common sense, without the destruction and collapse that they invariably produce. They usually occur because those in power are intellectually unable to move forward and to adjust themselves sufficiently rapidly. There is no reason for this to happen in England, but we must have a Supreme Economic Council to guide the development of our economic life. Parliament is totally incapable of and totally unsuited for the performance of this function. Since the earlier chapters of this book were written, a Steel Committee has been founded in England to reconstitute our steel industry. Everyone knows that this work is ten years late in starting, and has been desperately urgent for the last five years, but nothing has been done. A Supreme Economic Council could proceed with this work, apart from changes in Government and political disturbances. The Steel Committee's work has eventually to be reconciled with the position of the coal trade, and the shipbuilding industry. The latter is dependent upon the shipping industry, which again is dependent, to some extent, upon the choice made by industry generally in the question of whether to manufacture at home and export, or put up factories in overseas markets. The future of freight rates, the cost of shipbuilding, the cost of fuel, might be determining factors in this vital question.

At present, there is no co-ordinating body. I have made proposals, far from the last word on the subject, for such a body, with the power of swift and effective action. I have my own personal experience of debating questions, like the Dyes Act, before Parliament. It is a farce of ill-informed argument and partisan effort. Coal is in the same category. Yet these are questions that matter desperately to the ordinary citizen and to the future generations of mankind. We must create a body that can literally reconstitute the economic life of Great Britain and the Empire, a Supreme Economic Council that will mobilize the practical experience and knowledge of the British people, to save them from the poverty, the misery, and the dispersion of power and influence, that will be their lot, if they lose their position in the economic development of the future.

The necessity
for a Supreme
Economic
Council.

Such a body could deal with the questions which I have raised and tried to answer in regard to modern accounting methods, company law, stock exchange regulations, etc. etc., and the regulation of stocks of commodities.

I have restated the theory of the "Cistern System of Stocks," because in all the economic muddle and disaster in which we live no greater absurdity exists than that mankind should be poorer because it has an apparent plethora of the commodities it wants to use. The inflation and deflation of commodity prices has a terrific effect upon the quantitative credit basis of the world. If large stocks were permanently held, free, as an insurance against the shortages that will surely occur, their existence would not only prevent the sudden and illogical

Equilibrium
to be assisted
by the control
of stocks.

swelling and shrinking that takes place to-day, but also eliminate necessity for the speculative element in the carrying of stocks, which is a positive danger. They would serve to regulate the price of commodities more effectively than any monetary operations or international money standards are likely to do. It is true that no regulation of price or holding of stocks can be wholly effective without the regulation of production. The extent to which the Cistern System of Stocks would tend automatically to control production I have dealt with in the chapter on that subject.

The necessity
for progress
in rationaliza-
tion.

How far such regulation is possible and coming into the field of practical politics can be judged from the following two quotations from first leading articles in *The Times*, which seldom adopts a view until it is pretty generally held by influential people :

The Times, 28th May 1931 : “. . . The fall in prices should therefore be attributed in the first place to this attempt to interfere by means of ‘organized marketing’ with the natural operation of the law of supply and demand, rather than to any inherent defect in the world’s monetary system. . . . What is really needed is . . . above all, the abandonment of the attempt on the part of producers to circumvent the inevitable laws of supply and demand. . . .”

The Times, 13th June 1932 : “. . . Our traditional economic theories may have to be recast to fit the new facts—to meet the new difficulty which is not to produce enough to satisfy demand, but to increase consumption to a point which will facilitate

production and make it profitable. New bottles must be found for the new wine.

"The lesson is being slowly and painfully learned that under modern conditions unrestrained competition can only lead to disaster. In every country competing industries are feeling their way towards co-operation and the co-ordination of production with the possibilities of consumption. In some cases, indeed, the co-operation has extended beyond national boundaries and has brought together competitive industries of several countries. In Great Britain the steel-producing industries are now engaged in a great effort to organize themselves in a way that will promote efficiency and eliminate unnecessary competition. . . ."

Slowly and painfully indeed the lesson is being learned—the lesson that Industry is of more importance than Finance. That money must be the servant, not the master of commodities. That the political determination of nations makes it impossible to allow commerce to settle itself according to the laws of the jungle ; but that it must be fully comprehended, and made to obey the laws of man.

World trade must be suited to the demands of industry, not finance.

The Times again, in the same leader of 13th June, says: ". . . But nations have been driven to erect tariff barriers to prevent their national economy from being dislocated by floods of imported goods manufactured by mass production methods. If tariffs and other barriers to trade are to be substantially reduced there must be some understanding to restrain and regulate this ruinous competition ; and it must be remembered that other considerations have to be taken into account as well as the purely economic. National policy

cannot be determined merely by calculating what will most increase the nation's aggregate wealth. No economic motive, for example, would induce France to drive her small cultivators out of existence by freely opening her markets to the mass agricultural production of oversea countries."

Mankind to-day capable of physical emancipation

The human race has the right to decide in what manner it shall exist. All history shows that man is raised morally, intellectually, spiritually as the increase in his standard of living raises him above his original animal existence. Religion begins with dawning civilization, not with the apes. One of the great questions of the future will be how far we should allow material development to go. Meanwhile, the greater part of the human race is miserably poor, and still in the chains of an underdeveloped economy. The average income of the adult human cannot amount to £50 a year. Even in the civilized world alone it must be less than £100. To double this standard, not in money, but in goods and services, would create an economic situation which would make all high records of all statistics to date look puny and insignificant. It is within the power of man to do this. By co-operation and common sense he can achieve material emancipation. One quarter of the earth's surface and population is under the hand of the British people, within the British Empire. The responsibility for leading the human race in this rests with them, above all the nations of the earth : all the peoples of history. They have the character, the brains, the traditions, the knowledge and a common tongue to enable them to do it. It is the problem of this century. It is their duty to find the answer.

THE PRESENT RECOVERY

The present recovery is spasmodic and superficial and appears to be based upon a chain of accidents, coupled with a Conversion Scheme which, so far as saving is concerned, is negligible in its effect on the present Budget. This Conversion Scheme had a dramatic effect, because, as I said previously, it diverted investment from gilt-edged to industrial and commercial securities and this created such a rise in prices that people who were previously unable to buy, found their capital increased and started buying. When this happens on a large scale, it rapidly produces an improvement in trade figures to justify the rise which has already taken place.

If I may refer again to what I said in *Why the Crisis?* a fall in prices comes to an end when more people think things are cheap than think them dear. This is supported by the fact that stocks for the most part which would normally be held in the hands of dealers—this is, of course, apart from stocks of primary commodities—have become bare, with the consequence that much replacement must be done to meet the huge repressed purchasing desire on the part of the world in general. This repressed desire is let loose by the fact that people who have money saved are now in a much more liquid position than they have been for the past two years or so.

Further, in the United States of America, hire-purchase contracts have run out and people are now prepared to commit their future again, strengthened by the fact that they have been able to meet their obligations during the slump.

The tendency to revert from Prohibition in America is also a factor in the recovery of that country. Another important cause of world recovery is the tendency shown at Lausanne to deal with War Debts and other international obligations on a saner basis. If once the bogey of international payments is cleared out of the way, the position will certainly be easier for world recovery.

Thousands of millions of pounds have been added to the world's potential credit position by the rise in Stock Exchange and other securities and this will carry with it a rise in the value of land and real estate. Frozen positions have become unfrozen and the world ought soon to start trading again on an easy basis.

The important point for the purpose of my argument is, however, that the whole thing is spasmodic and illogical : recovery taking place more by accident than design. It is true that the American Government has made a concerted attempt to create credits in order to avoid further banking failures, but this might just as well have been done two years ago in order to provide fertile ground in which the seeds of the benefits of War Debt Conversion could have taken root.

It must be emphasized that in spite of the present improvement, there is nothing to prevent a repetition of the whole cumulative and interacting forces of the ordinary "boom" becoming apparent. The present state of affairs may be nothing more than an upward movement which will pile itself into another waterspout, rising to a height at which its equilibrium will collapse because its velocity will cease to be adequate for the maintenance of its mass. If

that happens the whole boom structure will collapse and be replaced by the open whirlpool of slump and crisis from which we appear to be emerging.

The only way in which these two extremes of financial waterspout and monetary whirlpool can be avoided is to devise an economic system that allows the world to progress steadily upon its normal path of a three per cent. annual increase in wealth, and to institute machinery for the control of all the forces which tend to divert the industrial and commercial progress of the world from this regular and logical progression.

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